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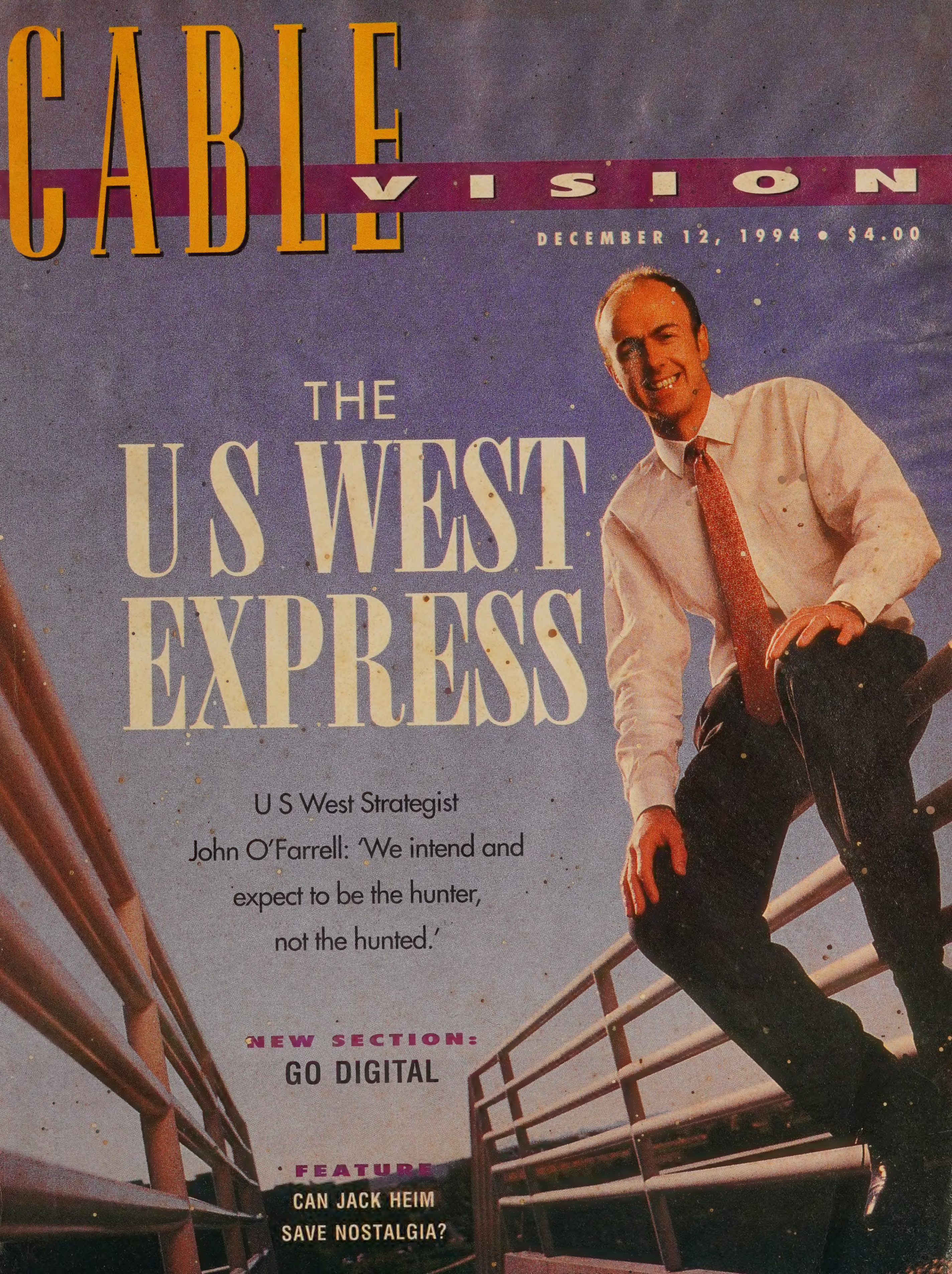

THE U S WEST EXPRESS

U S West Strategist John O'Farrell: 'We intend and expect to be the hunter, not the hunted.'

NEW SECTION:
GO DIGITAL

FEATURE
CAN JACK HEIM SAVE NOSTALGIA?

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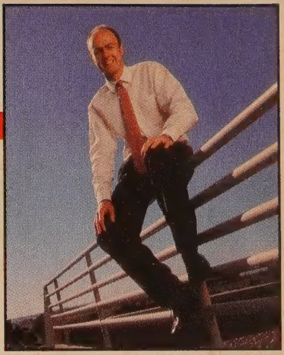
COVER STORY: THE U S WEST EXPRESS

The most aggressive of all telcos gets on track with an ambitious strategy of acquisitions, cable telephony, video dialtone and interactivity.

By Tom Kerver 30



COVER PHOTO BY DAN SIDOR

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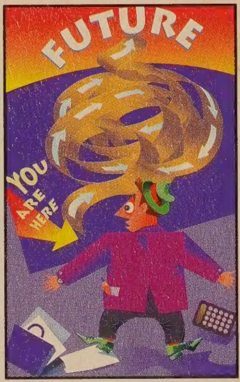

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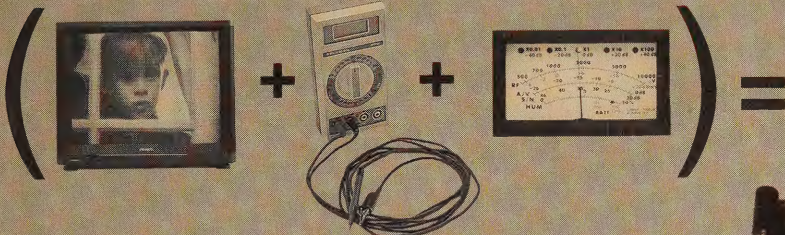

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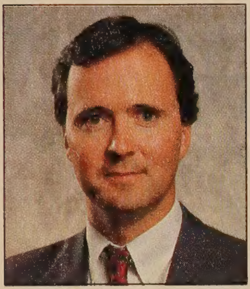
New Attitude

“Re-engineering” is a god-awful business buzzword, but in fact there’s quite a lot of it going on these days. Re-engineering means different things to different people. To some, it’s a matter of restructuring the company organizational chart. To others, it’s a strategy to expand into a new business. And to those with more of a technology bent, it can mean specific changes in product form and design.



Cable is embarking on its own brand of re-engineering

But one current runs beneath any type of re-engineering: fresh thinking. Now, across the cable industry, there’s a concerted effort to shake off the past and seek new answers.

With the twin forces of re-regulation and competition dogging the industry, many companies are striving to become larger players in the telecommunications and multimedia arenas. At the same time, the industry’s leadership, through the NCTA and CTAM, is instilling a new attitude toward customer service. Throughout the cable industry, there’s an eagerness to see what can be learned from related businesses like telephone and computer companies.

A few interesting examples of re-engineering are included in this *Cablevision.* Our cover story recounts the re-engineering that took place at U S West (though business editor Tom Kerver says the telco now prefers to call it “re-structuring” following a critical *Denver Post* editorial). U S West engaged in serious soul-searching before embracing an aggressive broadband strategy.

Re-engineering is also taking place in Concord, N.H., where Continental greatly increased the responsibilities of employees in an effort to improve customer service (page 26).

And *Cablevision* is doing a bit of re-engineering itself. We’ve launched a new series of special reports called Go Digital, dedicated to the evolution of cable into a digital medium (page 47). It’s another way in which we hope to give our readers more information to inspire their own fresh thinking.

Craig Leddy

Editor

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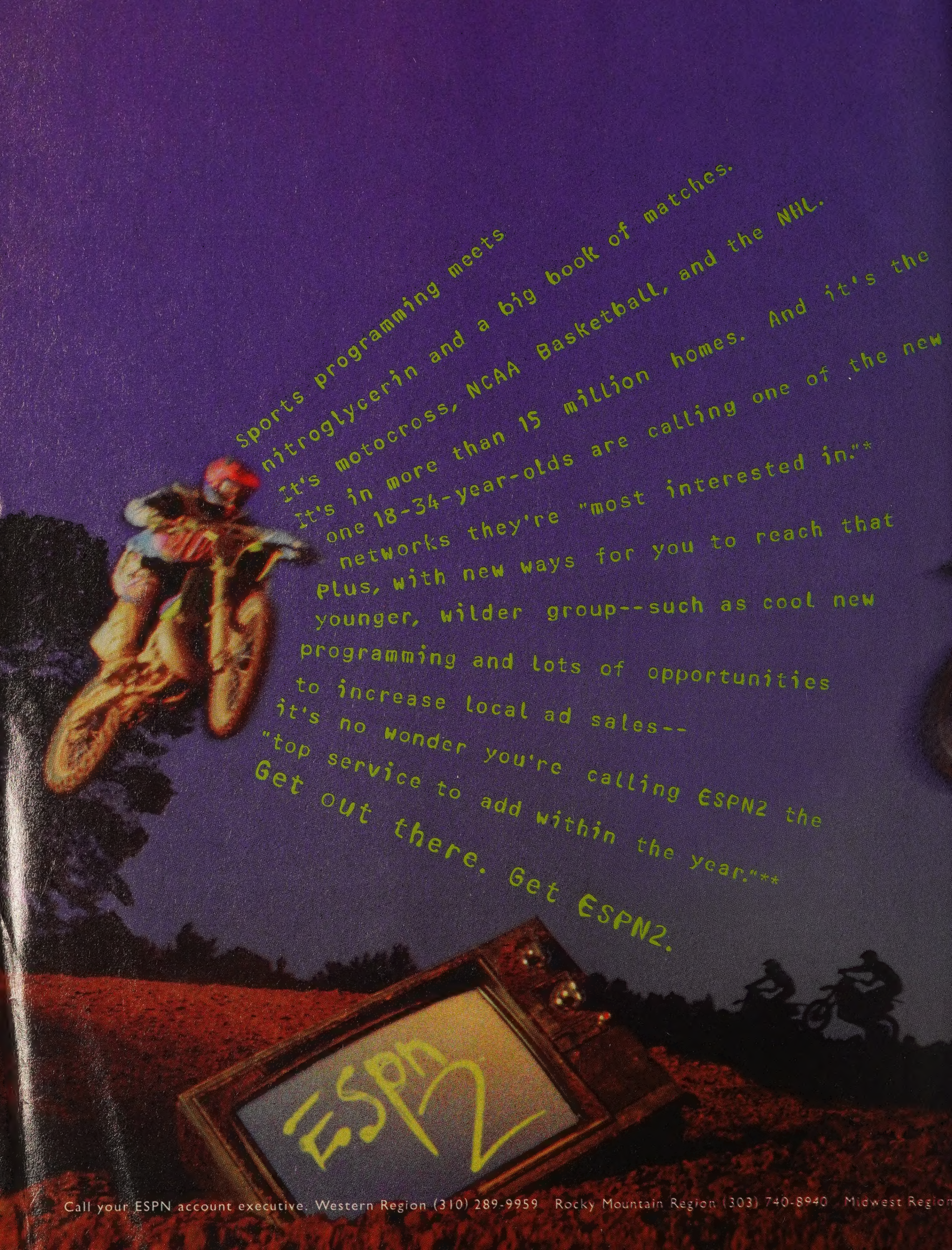

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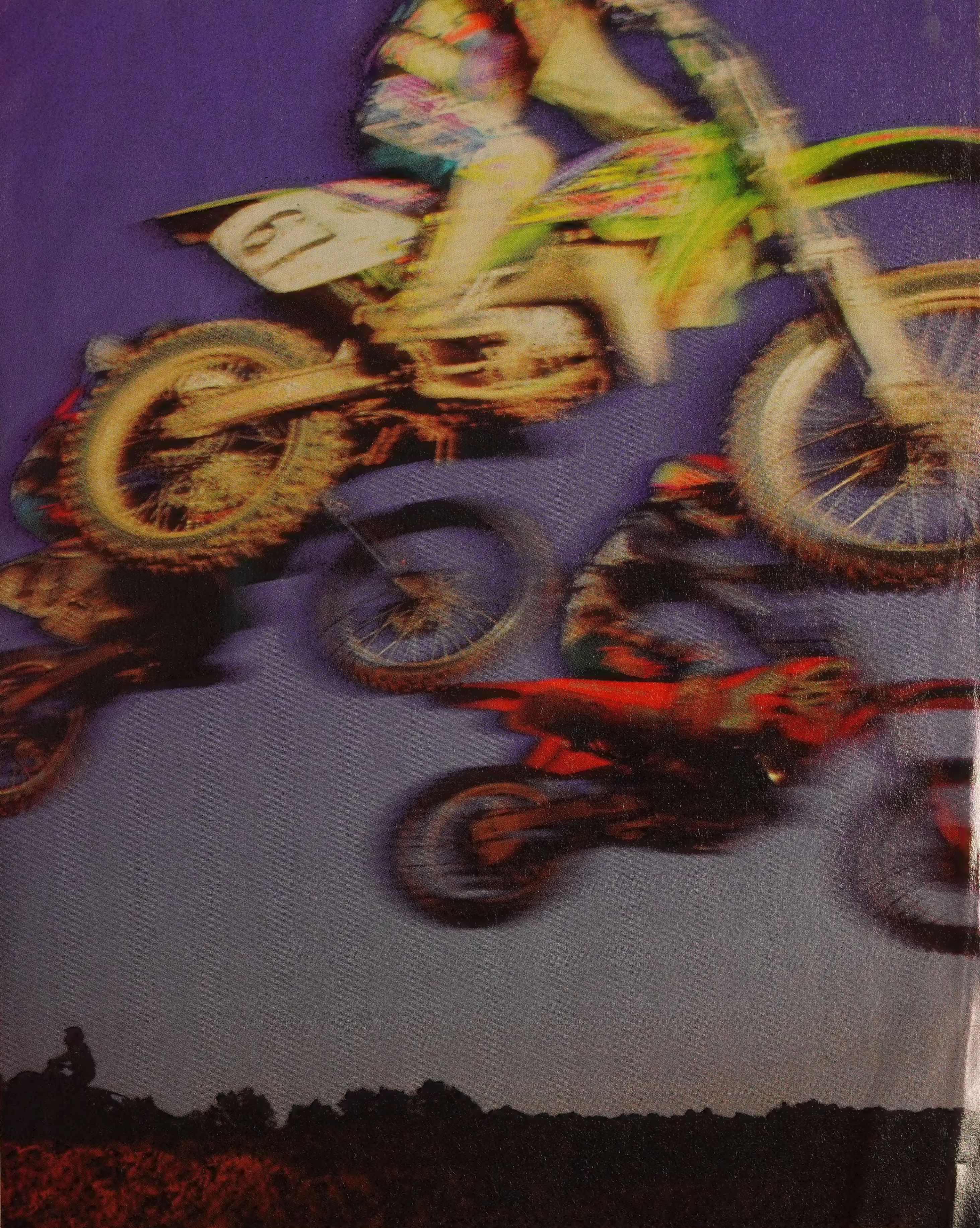

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*Beta Research, Oct. 93 Cable Subscriber Survey **Beta Research, Sept. 93 Survey among Cable Operators ©1994 ESPN, Inc.

BETWEEN THE LINES

Jones: A Costly, Complex Deals Closing Soon

When **Jones Intercable** shareholders meet Dec. 19 to ratify the company's absorption of **Jones Spacelink** and **Bell Canada International**'s **(BCI)** 30 percent investment in Intercable, the exercise should be a formality. But the cost of executing that formality won't be cheap.

Intercable's 318-page proxy statement (including attachments) admits that **Glenn Jones** "has sufficient voting power...to cause the approval of each of the proposals, regardless of the vote of any other shareholder." Nonetheless, about $3.25 million in fees, plus expenses, was paid out to four Wall Street firms (**Salomon Bros., Goldman Sachs & Co., Dillon Read** and **Lehman Bros.**) for various services in connection with the transactions.

In addition, Intercable is paying a $2 million fee to VP **Pat Lombardi** for services of the **Jones Financial Group** in arranging the deal with BCI. Intercable will supplement this with an unspecified amount of future "additional compensation." Also, Jones pays BCI $600,000 to cover its costs in the transaction. When all these obligations are totaled, the cost to Intercable and Spacelink could approach $7 million.

Intercable shareholders will also find that their company has obligated itself to:

- Pay Glenn Jones a salary of $2.5 million/year for each of the next eight years under his new employment contract.
- Pay salaries and benefits for as many as 10 new management or operations executives who will transfer over to Intercable from BCI.
- Provide channel capacity on its systems for **Jones Education Networks** (JEN) programming for 15 years.

In working out the final agreement, both Goldman Sachs and Salomon had problems in valuing the Jones programming assets, since the only significant network, **Mind Extension University**, is, in the words of Goldman Sachs, continuing to incur "significant operating losses." Salomon went out 10 years, to 2004, to establish a positive free cash flow for ME/U, then discounted the value by almost 18 percent. Goldman Sachs was even less kind, arguing that "it would be appropriate to use relatively high discount rates," given the risks associated with ME/U going forward.

To that end, JEN will commit $7 million to ME/U out of the $18 million it's getting from BCI in exchange for a 15 percent equity investment. Originally, Jones had hoped to use the bulk of the $18 million for development of new programming, such as the **Jones Computer Network**.

As has been previously reported, Glenn Jones will receive a one-time benefit of $53.5 million from BCI for granting the Canadian company an option to take control of Intercable within eight years. After the deal closes, BCI will have direct or indirect input into the selection of six of 13 board members.

• *Tom Kerver*

UNDERGROUND

➢ Liberty Sports execs are talking, or soon will talk, with pro baseball and basketball entities about events for its Women's Sports Network, to spend much of '95 as a "sheltered" part of its regional sports nets, says Dan Wilhelm, VP of programming. A nightly women's sports news show is in the works. Liberty talked with Mike Weisman, also planning a women's net, about working together, says Ed Frazier, Liberty Sports president.

➢ Bravo's newly launched Independent Film Channel is commercial-free "at this point, as we focus on distribution," says Andy Farley, Bravo's senior VP of business development. But if Eastman Kodak, which used to sponsor Bravo's *Independent Film* series, or others wanted to buy sponsorships, "we would take a close look at it," he adds. Bravo itself has new sponsor deals pending in the auto, computer and financial categories.

➢ MTV plans a major local ad sales push around the 1995 back-to-school season. "We did a little on that this year," says Steve Houck, VP of affiliate ad sales and marketing, MTV Networks, "but it's going to be a big focus next year."

➢ ABC will develop a half-hour pilot of "Midtown North," the *NYPD Blue* parody featured on Comedy Central's *Small Doses* sketch series. Also, the network's relationship with Creative Artists Agency will yield two more series in early '95: *Real Marriage*, which Comedy pins as its answer to MTV's *The Real World*, and a soap opera spoof.

➢ The National Cable Television Association has 200 companies reserving convention space for 1995. That leaves NCTA just 133 short of matching this year's record exhibitor count. Bellcore will be a first-time NCTA player in '95, along with U S West's Interactive Video Enterprises, Siemens, Lightspan Partnership (formerly Curriculum Television) and Accuracy In Media, the conservative watchdog organization.

• *Compiled by Laurel Gross from staff reports*

An Only Slightly Tarnished Lining

There's a little bit of good news for cable in the video dialtone order the **Federal Communications Commission** issued last month.

Certainly, it's not much compared to what the industry says is wrong with the order—the **National Cable Television Association** has a shopping list of complaints about the FCC's decisions on video dialtone, focusing mostly on the potential for phone companies to use their existing revenue to subsidize their entry into the video programming business.

But, believe it or not, the video dialtone order contains potential relief for cable from rate regulation: "We anticipate that, as ... video dialtone services are

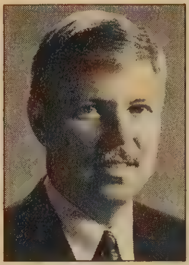
CABLE: THE NEXT GENERATION

Hiring cable veteran Bill Luehrs away from Scientific-Atlanta represents the capstone of Zenith Electronic Corp.'s rebuilding its cable television division. That's the spin Zenith is putting on the most recent addition to its staff.

Luehrs, 50, who more recently worked as a VP in S-A's broadband division, is a little more modest. But he's says he's relishing the chance to show potential customers and competitors what Zenith can do.

"Zenith has not been under a spell here. They've got some excellent people working on some excellent products," says Luehrs. Among those products: a digital television modulation scheme and other parts of the high-definition television standard as well as some cable data transmission equipment. "I see some very good building blocks here," says Luehrs.

In his new job as senior VP of Zenith's network systems operations division, Luehrs will be responsible for engineering, product management and manufacturing. And that's not just set-tops and it's not just for the cable business. Zenith's other hires have made it clear that while cable is important, it's not going to ignore the telephone companies' interest in delivering video.


PROFILING:
Zenith's Bill Luehrs

Most recently, Zenith hired William Niemeyer as a director of sales for Bell company customers. That job is part of Luehrs' network systems division. Garrett Mullins, VP of sales and customer service for the division, was lured away from Tele-Communications Inc. earlier this year. And about a year ago, Dean DeBiase, who had previously worked for Antec, was hired as VP of marketing for Zenith.

"The industry is currently going through a rapid growth phase," says Luehrs. "I have an opportunity to shape one of the traditional leaders of the marketplace."

• *Chris Nolan*

deployed, cable operators may be able to demonstrate that they are subject to 'effective competition' and thus not subject to create regulation by the commission, state or franchising authority," the order reads in a footnote.

As a video dialtone system is up and running, a cable operator should be presumed to have effective competition, according to one commission lawyer. The telephone companies are everywhere and have a wire into almost every home, so an operator shouldn't have too hard a time making the argument that competition exists throughout a franchise area. And if competition exists, cable operators aren't subject to rate regulation.

But does that argument work for other technologies? Direct broadcast satellite, for example, is as ubiquitous as telephone service. Technically it too is everywhere. No, says the attorney, for those other cable competitors, there's a cost of entry. A consumer has to purchase a decoder and sign up for service. Telephone lines—over which video and other service can be delivered—are already in most homes. • *Chris Nolan*

FSN Has Twice the Bandwidth

Time Warner's **Full Service Network** is scheduled to debut on Dec. 14 and there will be a lot of differences between what's been talked about and what's actually going to be unveiled in Orlando, Fla., that's for sure.

One of them isn't going to be visible. But it's important. Time Warner is allowing each of its "digital channel" to use 12 megahertz of spectrum to travel from the server to the set-top box. The company is using **Toshiba** tuners to receive signals.

That's twice the bandwidth used by cable operators today. The system is using larger "pipes" to get more information, more quickly to and from consumers' homes. The data stream is traveling at about 45 megabits per second, according to **Jim Chiddix**, senior VP of engineering and technology for Time Warner.

"With the available technology, we couldn't use 6 MHz," says Chiddix. There's no reason, other than established custom, that Time Warner or any other digital network absolutely has to use only 6 MHz for its channels. After all, it's a closed system. And digital channels, which are designed to expand and contract depending on their needs, don't really use channels in the same way they're used in broadcast TV. Information can be fitted into the network wherever it fits since there's no over-the-air transmission that's regulated by the government. • *Chris Nolan*

THEY SAID IT

"The important thing for cable operators going forward is to look forward, not how one cable monopoly fared in the past as opposed to another."

—FCC chairman Reed Hundt, from *The Wall Street Journal* (11/21)

"The rules are half a loaf."

—Kay Koplovitz, USA Network CEO, also about the going forward rules, in *Business Week* (11/28 issue)

"Having George [Foreman] around should help Time Warner eliminate some of its debt...You can't fool the public, but George fooled us all."

—HBO Sports executive producer Ross Greenberg, from *TV Guide* (11/19 issue)

"This is better than working 14 hours a day in movies."

—Charles Grodin, introducing himself as CNBC's next talk show host (he'll replace Tom Snyder next month) at a New York press conference (11/15)

History will never be the same.

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*1993 Beta Research Cable Subscriber Study. Ranking based on networks launching in '93 or '94.

Photographs: Bettmann, National Archives.

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THE HISTORY CHANNEL

THE CABLEVISION-CHILTON

CONSUMER POLL

There's been a rush by cable networks to go online this year, all looking to get in on the ground floor of a promising medium. Although online may become a skyscraper of the future, it doesn't look like much yet.

The latest Consumer Poll estimates that under 5 percent of all U.S. households now subscribe to an online service. About 7 percent say they plan to subscribe during the next year and another 12 percent expect to, if they get a computer in that span.

According to market researcher SCTT Interactive, the online subscriber count soared to 5.1 million this fall, from 2.9 million a year ago. CompuServe has about 2.4 million subs, Prodigy 1.2 million and America Online 1 million.

Since the "yes" and "maybe" responses total about one in five households, even conservative estimates seem to indicate a 1995 upsurge in online subs. SCTT has reached a similar conclusion: It foresees 3 million new customers in '95.

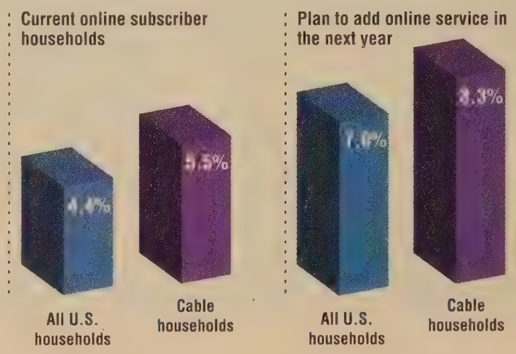
Consumers already subscribing to these services, and those leaning that way, tend to be more affluent—above $50,000 in income—and better educated—with some college.

Age also appears to play a key role—with the 35-54 segment likeliest to sign up.

Moreover, online penetration is considerably higher among cable subscribers—5.5 percent, compared to 2.3 percent among non-cable households. Cable households also appear likelier to go online over the next 12 months. *Jim Forkan*

• WHO PLANS TO GO ONLINE WITHIN THE NEXT YEAR?

Base: 1011 Respondents



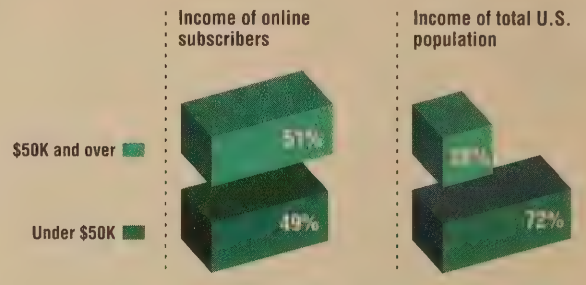
CHILTON RESEARCH SERVICES

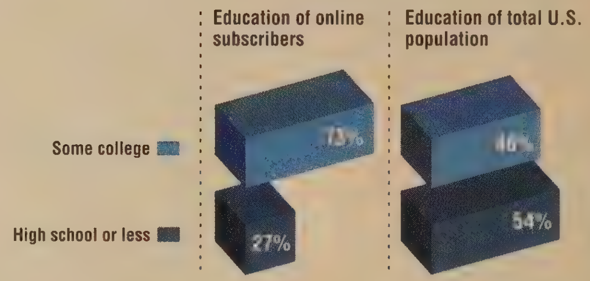
About the study:

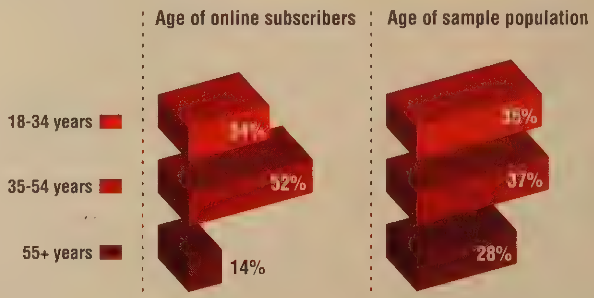
Chilton Research Services collected the data Nov. 2-6, from the Chilton EXPRESS Omnibus, a weekly telephone survey of 1,000 Americans over 18. Chilton uses a national probability sample of U.S. households, with data weighted to reflect U.S. Census distribution of household characteristics. Margin of error: plus or minus 3 percent.

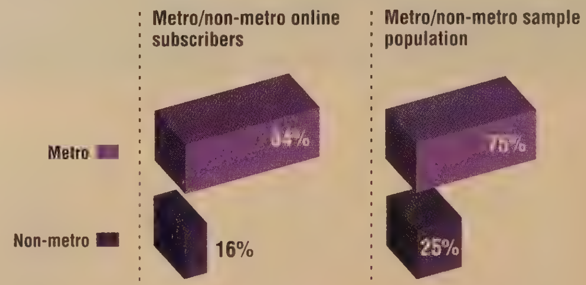
Chilton Research Services Media and Entertainment Division, Radnor, Pa., offers research and consulting services to companies involved in cable, network TV, film, home video and multimedia.

• PROFILE OF CURRENT ONLINE SUBSCRIBERS vs. TOTAL SAMPLE POPULATION (Online subscriber base: N=45)



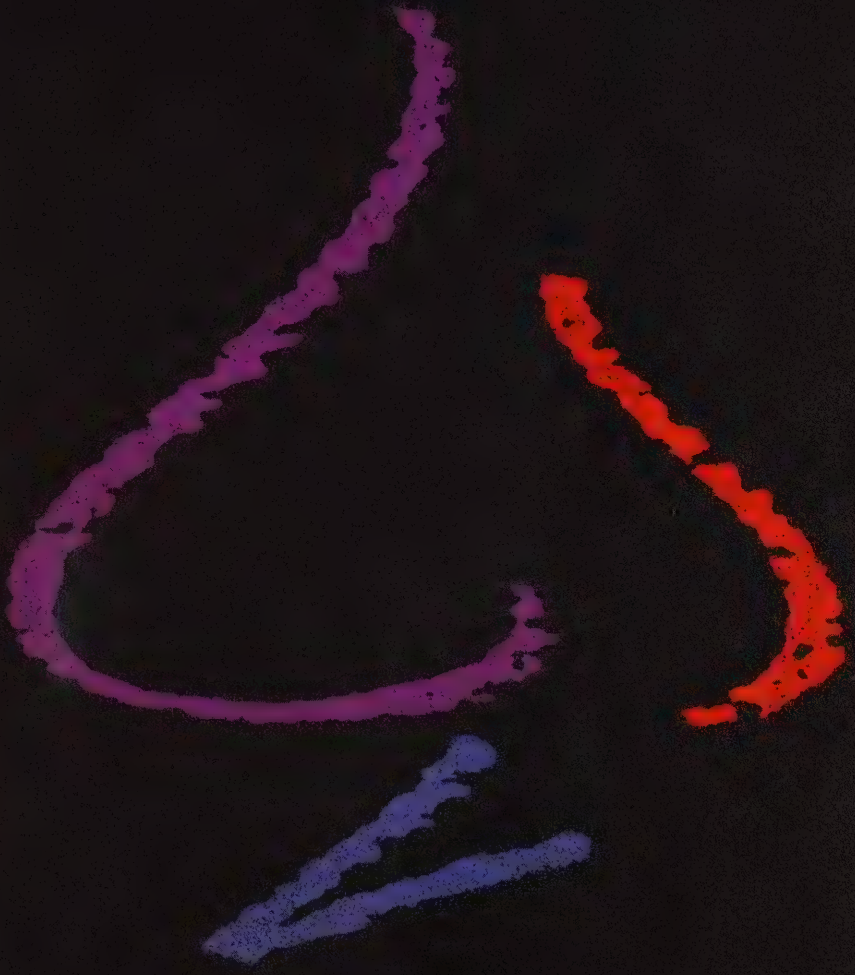






N= number of respondents
Note: numbers may not add due to rounding

99 CableACE Nominations!



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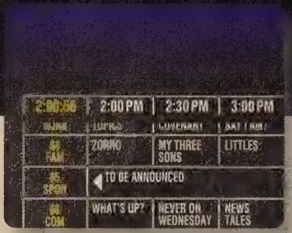

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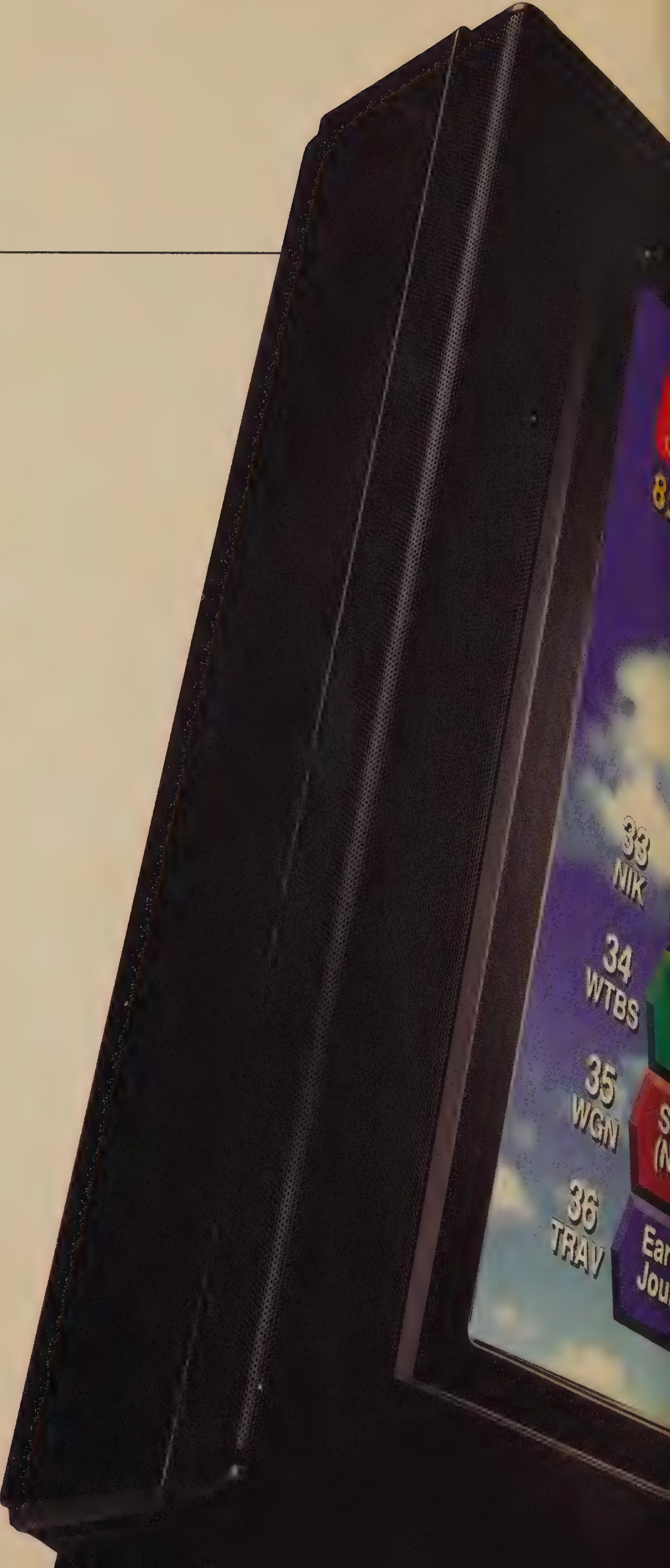

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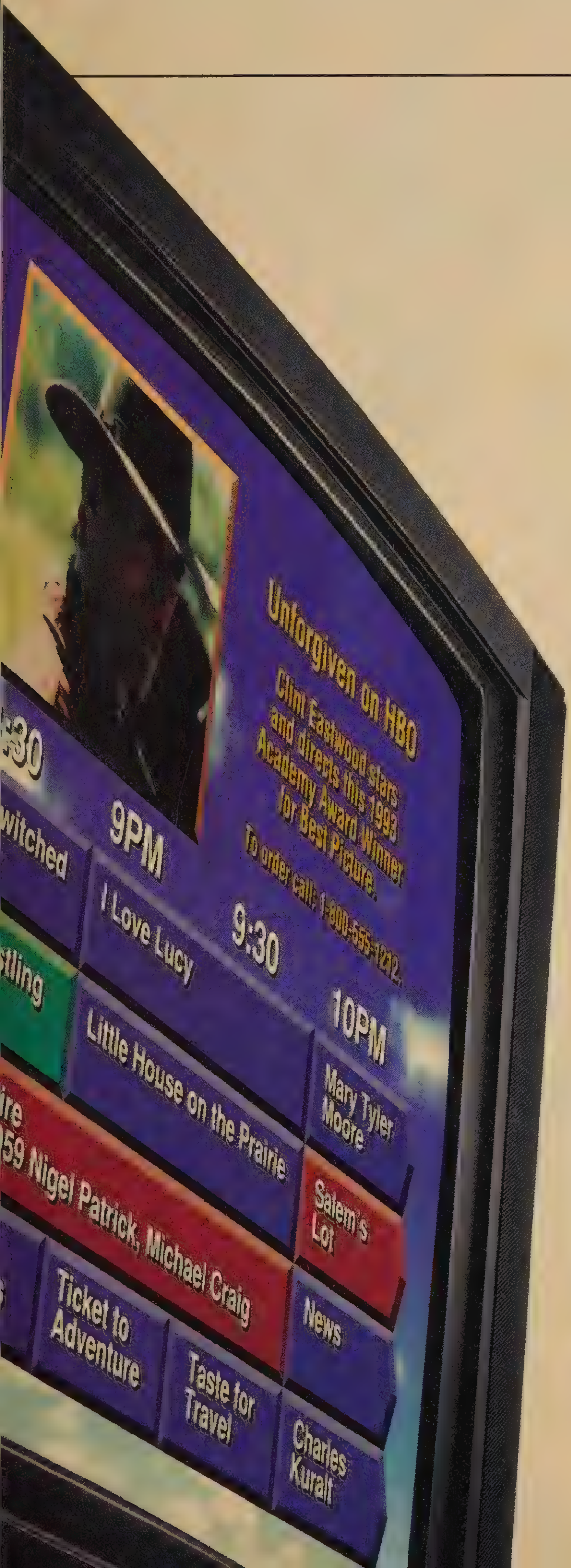
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by Jim Cooper

Brave New Tier

So what will those new product tiers that the going forward rules create look like?

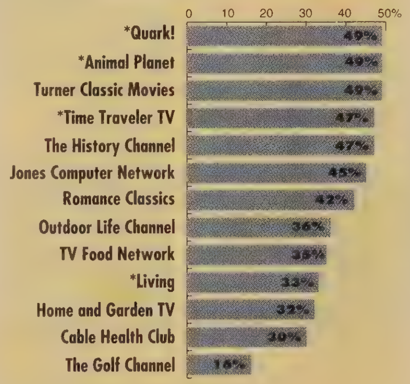
As broad-based networks battle over the newly added channel capacity created by the Federal Communications Commission's going forward rules, networks too wet behind the ears to seriously have a shot at those positions were considering the future on a new product tier.

Several programmers say they expect cable subscribers would be willing to embrace a new tier that has anywhere from four to 12 channels.

"The FCC is saying that we can't stop innovating in the cable industry and we have to have opportunities for new programming ideas to be realized," says Greg Moyer, president and CEO of Discovery Networks.

NEW NETS: CONSUMER ATTITUDES

Discovery Networks commissioned research on interest in new channels among multi-pay subscribers. About 1,000 subs responded to the study.



* New Discovery Networks
SOURCE: Malarkey-Taylor New Channels Study

The new product tier portion of the FCC's rules could be the saving grace for some established nets, although it will only provide them with a limited amount of distribution. Under the rules, operators will be able to craft tiers from new services that have yet to be carried and charge an unregulated fee for them.

Programmers will likely use that tier as a way to grow business away from the basic or expanded basic-cable model.

"I think that [packaging and pricing] is analogous to the NPTs as we know about them right now. Price points will be even more important because a la carte won't be a component," say Joe Cantwell, senior affiliate sales and relations VP for Bravo and The Independent Film Channel.

Discovery was quick to seize on the rules as an opportunity to launch four new niche channels designed specifically for the new product tier. Moyer says he sees the new rules as the death knell for the expansion of the traditional cable TV format, saying the future belongs to programmers who can deliver "affinity cablecasting."

For established networks like Discovery's The Learning Channel, extra channel space may get them the distribution they want. So networks in general are clearing their benches for the marketing and affiliate sales brawl.

However, for newer players without the punch of long-standing IOUs or retransmission consent deals, the chance of being added to a limited amount of basic channels on systems will be slim. Programmers such as fX and The Disney Channel, which are pushing for both carriage and high licensing fees, might also have trouble.

Based on the new tier world according to Discovery, NPTs—the latest cablespeak—will have services targeting more tightly specific interests than the larger niche networks.

Cantwell says Independent Film Channel would be a good fit for a new tier in which five to 10 channels would be bundled together. He says the channels would be attractive if they have high brand clarity, real value in pricing, and some recognition among consumers. "The early research on packages indicates that people are very much willing to pay for product they believe is differentiated, has high value and gives them something above what they currently subscribe to," says Cantwell. "Over and over they're saying give me something new, give me something good and I will be willing to pay a reasonable price for it, if you make it easy for me to do so'," he says.

Many programmers and operators have already been working on packaging and pricing programming differently—in order to distinguish themselves from the competition and to better serve subscribers. Their findings could be put to use in the launch of new product tiers.

As evidence of the wane of broadbased networks and the potential rise of new product tiers for new networks as the primary way to be seen, Americana Television Network folded as a result of the new rules.

Americana's chairman and CEO, Stanley Hitchcock, says the fledgling network was hobbled in its first 11 months by "stifling" regulation and that the rulings were "too little too late for Americana."

He says the going forward rules forced Americana to transform itself into a "production house." CV

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by R. Thomas Umstead

Floyd's in the Pink, Thanks to Radio Effort

A Florida radio station gets Comcast to carry SET's PPV concert by pushing subs to act

In most instances, cable operators have used local radio stations as an effective strategic tool in marketing pay-per-view events—particularly music concerts—to subscribers.

In the case of Comcast in Saratoga, Fla., however, it was the radio station that spurred subscribers to get the system to carry Showtime Event Television's distribution of the Nov. 1 Pink Floyd PPV concert.

Listeners of popular radio station WHPT, which features an album-oriented rock music format, besieged the station with calls five days prior to the event—all complaining that the 15,000 addressable-subscriber Comcast system was not offering the Pink Floyd PPV concert, according to Ellen Daughtry, the station's morning show producer.

The Nov. 1 Pink Floyd event almost didn't get carried on PPV in Saratoga, Fla., but cable subs took action.

The concert, which retailed at a suggested price of $25.95, featured the first television airing of the group's popular *Dark Side of The Moon* album presentation, complete with lighting and other special effects, says SET.

Comcast PPV event provider Viewer's Choice did not license the show because of the extremely short two-week marketing window between SET's announcement and the actual airdate, thereby prohibiting the system from clearing the event. Melanie Sommer, area marketing and PPV coordinator for the system, says that the inconvenience of a mid-week date and the poor performance of past concerts also contributed to the system's decision.

Yet an hour after Comcast received "dozens" of calls from subscribers requesting the show—on the urging of WHPT's early morning deejay—the system cleared the event. "We decided right then and there to carry the event," says Sommer. "There was a lot of pressure locally to do the event and the increase in the media coverage helped make our decision."

The system was able to distribute the event on a shared channel in parts of its franchise area and on a stand-alone service for its remaining subscribers. Even though the system didn't provide any marketing for the event, it still pulled in approximately 100 buys—a 0.6 percent buy-rate—says Sommer. Nationally, the event generated between a 0.1 and a 0.3 percent buy-rate, according to SET and cable operators.

"Our subscriber demographic is older, so it worked well for the concert," Sommer adds.

Comcast subscribers probably would not have known about the event had it not been for the aggressive promotion done by Paragon Communications in neighboring St. Petersburg, Fla. Attempting to get in as much pre-advertising for the $24.95 event, Paragon flooded its local radio station's airways with event spots, says Dave Butler, sales operations manager for the 24,000 subscriber system.

Paragon ran a call-in sweepstakes for the show—which offered prizes to listeners calling in after hearing Floyd's big hit *Money*, says Butler. In addition, the system placed a message plugging Floyd on its automatic response unit PPV ordering system, and loaded its Sneak Prevue barker channel with event ads.

However, Butler admitted that WHPT's subscriber call-in campaign in Saratoga was a major driving force in spurring its 0.7 percent buy-rate for the event. Paragon was one of the systems the station acknowledged as carrying *Floyd*.

"The call-in push from the deejays really helped us out," Butler says. "They got the word out that we were carrying it." CV

HBO® is the #1-rated cable network.
Can you name two of its
closest competitors?

by Jim Forkan

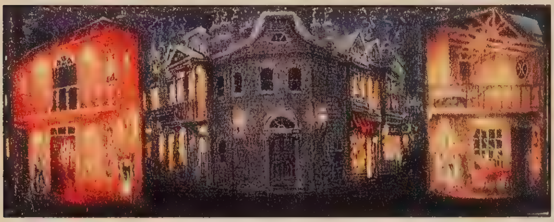
Nick On Stage

Nickelodeon, MSG, and a batch of sponsors will go all-out to promote *A Christmas Carol*

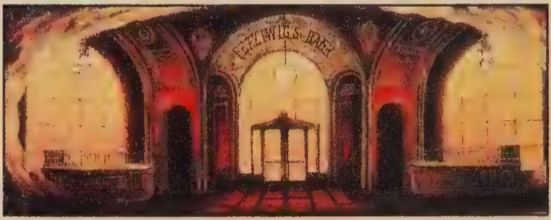
Scrooge is back—and Nick's got him. No, not St. Nick—Nickelodeon. Heavily promoted in the New York market, a new musical version of Charles Dickens' classic *A Christmas Carol*—a Nickelodeon/Madison Square Garden co-production—will run through Jan. 1 at the MSG-owned Paramount Theater.

And nobody, it seems, is saying, "Bah! Humbug!" to the partners' pursuit of tie-in sponsors. The list of clients, sold by MSG, contains American Express, Diet Coke, Nobody Beats the Wiz and Pathmark supermarkets.

Nickelodeon handled the marketing, the logo, and the media and creative strategies for *A Christmas Carol*, says Tom Harbeck, Nick's group VP of consumer marketing and associate creative director. Most of the roughly $2 million in paid advertising supporting the musical in newspapers, out-of-home and TV features the logos of those sponsors.



The lavish set designs for *A Christmas Carol*, the musical, also star in FAO Schwarz's store windows in New York.



Sponsorship of Broadway has become trendy of late. Examples include MSG Network's sponsorship of *Damn Yankees* last spring and summer and American Express' designation as "the official card of *Beauty & the Beast*," among others.

Oddly enough, the *Christmas Carol* spots on broadcast TV, MSG and the MTV Networks cable channels omit Nickelodeon's involvement—on purpose. Harbeck explains that's because he wanted to "avoid the potential [consumer] confusion about what this is," at least in its debut year.

The only spots that do promote the musical as a "Nickelodeon Family Classics" event are those running on Nick itself, Harbeck adds, as the cable network tries to build on its family entertainment branding.

The musical will not become a Nick cable special, lest it drain ticket sales for what is planned as an annual yule event, Harbeck says. But, he adds, "We're kicking around the idea of doing a half-hour opening night special." MSG already has shown a special on the making of the stage production. (And even though Viacom has sold MSG, the latter will stay involved in the show, which had been in development at least two years.)

There were no tie-ins with the New York market cable systems at press time, though Harbeck says bill stuffers remain a possibility.

The Broadway show is being advertised as "a magical new holiday show from the composer of *Aladdin* and *Beauty and the Beast*," namely Alan Menken. By using such headlines as "Imagine something new to do this Christmas" and "Imagine a brand new holiday tradition," the new play is also being positioned against Radio City Music Hall's yuletide stage show, a New York perennial.

These are some of the ways in which the tie-in marketers are helping broaden consumers' awareness levels for the musical:

- The Wiz is tagging some Nickelodeon-produced TV spots and featuring *Carol*-themed displays in its electronics stores; it also used the cover of its Nov. 13 Sunday newspaper supplement to plug a free sampler tape cassette to ticket buyers.
- Participating Wiz and Pathmark stores are offering $4 off ticket prices.
- Diet Coke retailers are redeeming up to 15 million cans toward ticket discounts.
- Toy retailer FAO Schwarz, New York, is featuring dioramas of the stage sets in five windows through Jan. 2, and selling spinoff merchandise next to Nickelodeon's ongoing boutique.
- American Express is sending mailings to its Gold Card holders.

Geodemographic targeting is at the core of AmEx's event strategy, says Steve Smith, its director of media planning and buying. AmEx tries to build a closer relationship with its upscale customers by offering special opportunities, from special seating or first crack at certain Broadway shows or sports events, he says. CV

PHOTOGRAPHS BY TONY WALTON

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* HBO Subscriber Report, ** HBO Transactional Database

Photo of Charles Atlas, World Famous Bodybuilder, by permission of Charles Atlas, Ltd., New York, NY 10159

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by Jim Forkan

They Want *mmm*-TV

In this eat, drink and be merry season, TV Food Network is filling its sales plate with big accounts

This is the time of year when most consumers like to party hearty. Advertisers as usual are spending heavily to get them to do so with *their* brands of foodstuffs, snacks and beverages—and Television Food Network is among the beneficiaries of all this feeding frenzy.

TVFN, in fact, is more than 80 percent sold for the fourth quarter, a healthy showing for a network that launched about a year ago, says George Babick, senior VP of ad sales.

Fueling all this consumption is the fact that the final quarter is chock full of occasions—Thanksgiving, Kwanzaa, Chanukah, Christmas, and New Year's Eve.

The network has come a long way since booking Del Monte as its first sponsor, making a $1.5 million buy for its fresh produce last May. It now has more than 50 advertisers aboard, most of them using TVFN in combination with magazines and spot TV, Babick adds. However, at least three of those, including Del Monte, are using TVFN as their only national buy.

TVFN's latest major sponsors, Babick says, are Kraft General Foods, General Mills, Nestle and Procter & Gamble. They join Kimberly-Clark, Maytag, Sara Lee and Whirlpool. Still other advertisers that came on earlier include: Alberto-Culver, Campbell Soup and Jenny Craig.

TVFN, however, has no interest in sponsor-supplied programming. "We do all our own programming," Babick says, adding, "We don't take product placement." The reason is "we want to maintain our credibility," he says.

Created through a partnership of nine companies, mostly MSOs, TV Food Network bills itself as the only cable network devoted to food and food-related subjects. As might be expected, its target is women 18-plus, with emphasis on women 25-54, Babick notes.

In hopes of spurring cable system pickup in New York last June, TVFN ran a one-shot newspaper ad in which a cartoon character screams, "I want my m-mmm TV!"—adapting the line that made MTV famous. An MTV spokesperson said, "We haven't done anything about it."

TVFN, now available to 7.5 million cable households, will be measured by Nielsen in the second quarter. That can only bring in more ad sales, says Babick, who says he is confident that TVFN will easily surpass the 0.3 rating guaranteed to sponsors.

Jane Curtin is among the stars featured on TV Food Network programming, 85 percent of which is original.

PHOTOGRAPH BY PATRICK PAGNANO

Using mail response alone as a barometer, he says TVFN receives 8,800 letters a month, up sharply from 2,000 in the '94 second quarter.

Babick says the network has begun focusing on those viewers who have requested recipes seen on its programs. A recent special, on cooking a turkey, included an offer of 14 recipes for $2.95 and pulled over 1,000 orders, he adds.

TVFN has recently begun mailing such viewers coupons from sponsors that have reached a certain (unspecified) spending level, such as Smuckers, he notes.

From the outset, TVFN, which offers three minutes of local avails per hour, has also devoted considerable attention to the local sales side. The affiliate sales and marketing department, headed by senior VP Betsy Dirnberger, has shipped reams of printed materials for its operators to mine.

These food-for-thought kits note that grocery stores are being emphasized because "whatever their lifestyle, women continue to make the grocery/food decision."

At Colony Communications' systems, the four biggest spending local categories in TVFN avails have been restaurants, furniture stores, automotive and grocery retailers—and about 45 percent of their local clients are new to cable.

Colony in Fall River, Mass., for instance, got new business from the Valueland grocery store while its Lowell Cable TV system booked a newly opened Stop & Shop. On Colony's US Cablevision Corp. in Wappingers Falls, N.Y., Metzger's Meat Market bought TVFN for 12 months, says Bud Breheny, ad sales manager.

Colony is a TVFN owner, as are Adelphia Communciations, Cablevision Industries, Continental Cablevision, C-Tec Cable, Landmark Communications, Scripps-Howard Cable, Times Mirror Cable and Tribune Broadcasting Co.

Generally, after the holidays people must pay the piper. But TVFN's client roster doesn't include Alka-Seltzer—yet. CV

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TECHNOLOGY by Karen J. P. Howes

Europe's DVB Races

Can DVB, a scrambling standard gaining fans in Europe, have a chance in the U.S.?

While the U.S. cable industry is waiting for those newfangled set-tops using DigiCipher or MPEG-2 to become a reality, another standard is gaining a following in Europe.

Manufacturers throughout the world are targeting the development of their digital set-top boxes to be compliant with both MPEG-2 and Europe's Digital Video Broadcast standard, known as DVB. Though digital compression owes its initial development to U.S. companies working on HDTV technology, the increasing demand for digital product on a global basis is encouraging equipment vendors abroad to standardize the technology one step beyond MPEG-2.

DVB is a basic scrambling standard to make products interoperable. While it doesn't have the widespread support that DigiCipher has among U.S. cable operators, its proponents have basically the same goal that General Instrument has in promoting its DigiCipher product: to get as broad usage as possible.

If global acceptance of the pending DVB standard is successful, TV/Com, other vendors and some non-Tele-Communications Inc.-affiliated MSOs are beginning to wonder what the impact might be on GI's long-awaited digital set-top that uses MPEG-2, and on the U.S. market. Could the worldwide movement to adopt DVB speed up the rollout and lower the costs of competitive products?

What if U.S. MSOs with international interests see delivery of MPEG-2/DVB compliant products roll out in other countries before GI gets its own boxes out? "Had GI stayed on schedule and rolled out equipment in 1994, they would have been entrenched...," says Tony Wechselberger, chief technical officer for TV/Com, an equipment vendor. "Even the RBOCs, who don't want a closed standard, would've gone for the readily available system. But now it's become a true race to market and DVB may have a chance in the U.S."

Meanwhile, Scientific-Atlanta has decided to target some of its products, including the 8600XD digital set-top, for DVB compatibility—even though S-A has developed its own scrambling scheme and a proprietary conditional access system. Doug Ross, the company's VP of international marketing, says that's because, when there's an actual standard, manufacturers will be able to reduce costs by making products globally.

Scientific-Atlanta's 8600XD digital set-top is one of the company's products targeted for DVB compatibility.

DVB provides a standardized scrambling algorithm not too unlike DES (the Data Encryption Standard first used by the U.S. Department of Defense). Standardizing at this level simply means providing a common engine for scrambling.

"Basically, DVB creates a high probability that equipment from different vendors would be interoperable," says Wechselberger. What the DVB standard doesn't do at this time is standardize on modulation formats, data techniques and forward error correction.

The key to DVB's popularity is that in standardizing the basic scrambling system, users don't have to sacrifice the security of their system. "In fact, a requirement of DVB is that the conditional access portion can be removed and replaced so the local operator has complete control over the method he uses to transmit his digital programming," says Ross.

But will DVB make it stateside? GI is not designing its DigiCipher to be DVB compliant and the U.S. cable industry hasn't shown much of a penchant for interoperability. "Europe is in a different situation than the U.S.," explains Ross. "The driver for DVB overseas is satellite DTH. When a satellite beams a signal to a vast area, there is a need for standardization so you don't have a proliferation of satellite receivers in homes. But here, where the cable system is a closed loop, you don't have that motivator."

Meanwhile, MSOs who placed orders with GI in 1992 for some 2.5 million DigiCipher set-tops are playing it pretty cool. "We recognize that this is a very complex technology and certainly we'd like boxes to roll out, but we'll have to wait and be optimistic for now," says Lela Cocoros, TCI's director of corporate communications. CV

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OPERATIONS by Simon Applebaum

The Concord Revolution

Through employee empowerment, a Continental system improves its customer service

What makes a cable system like Continental Cablevision in Concord, New Hampshire, throw out the rules its 37 employees lived by until last fall?

A two-wire world awaiting the 28,000-sub system, responds Mary Colletti, Continental's Concord general manager. "We don't have Nynex or another telco smacking us in the face now," she says. "But in my book, we're in this world now, and what made us successful before doesn't work anymore."

Employee empowerment is becoming the management gospel in Concord—especially when it comes to customer service. Over the last year, through a series of policy changes, service representatives and technicians are getting more responsibility—and less red tape—in handling sub needs. The "continuous improvement" plan, as Colletti calls it, has produced considerable overhead savings and other benefits, she says.

The management model coming together in Concord is one that National Cable Television Association officials hope will be repeated nationwide through compliance with its new public affairs campaign aimed at improving cable's rep with customers. Concord employees in action were included in a video explaining that campaign, scheduled during an NCTA presentation at the Western Show; Colletti serves on NCTA's campaign committee.

Continental's approach tears down traditional departmental relationships in favor of cross-functional situations. For example, three sets of employee "Geo-Teams"—of CSRs, installers, dispatchers and maintenance staff—handle work in different areas of Concord. Each team gets an area to service; if one team member falls behind on his assignments, another member immediately steps in to fill the gap.

"We want the cross-functional approach because that way, you build in accountability," Colletti explains. "When a CSR takes an order, the accountability is gone after that order goes into the computer. In this system, the rep's responsibility carries through to the install or service call."

Another trio of teams—incorporating marketing and local programming people as well as service staff—evaluate ideas any employee offers concerning system improvements. If they help exceed customer expectations, or help control operating costs, those suggestions can be adopted.

ON THIS WE STAND

Concord and other Continental systems in New Hampshire launched a customer service guarantee policy nine months ago. Under the plan:

- Subs get a 30-day money back guarantee upon installation
- Service calls are fulfilled on a same-day basis, or sub gets next month's service free
- On-time install/service calls (within two-hour window), or sub gets free install/$20 credit
- Customers enduring outages get full-day credits, no matter how long service is interrupted
- Subs are promised excellent picture quality, or $20 credit if picture goes bad and situation is unresolved after service call window expires

Also, one sub in each Continental system is interviewed per week on the way his installation or service call was handled. Sub responses are shared among employees.

So far, the year-old program has increased pay units 13 percent—all on employee interaction with customers. Cost-saving statistics, however, were unavailable.

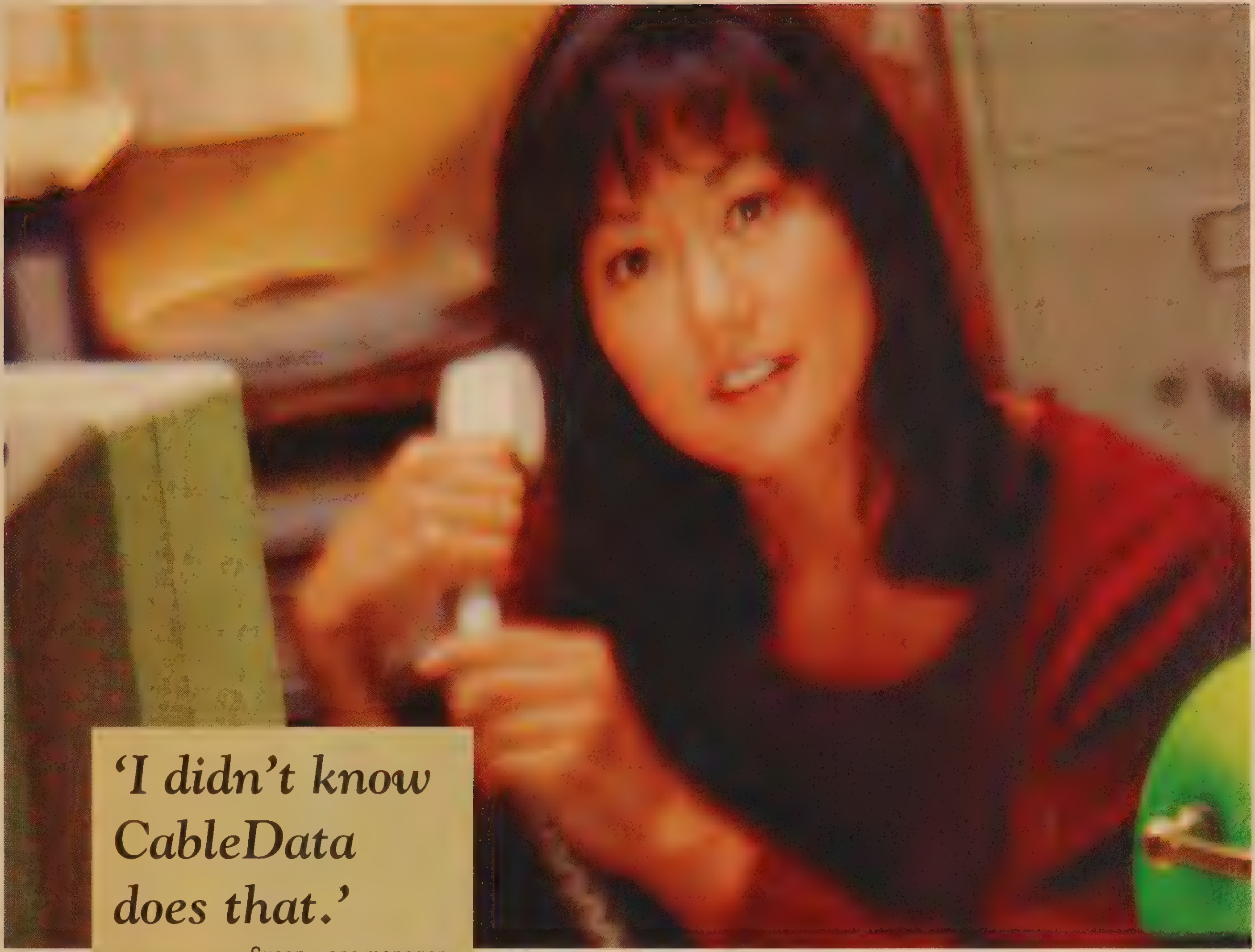
Colletti calls the program a "great motivator. The employees take more pride in working here, because they sense that affecting the customer directly affects business."

After several months of employee review, Concord management launched the empowerment plan last fall by eliminating numerous policies affecting customer treatment. The new policies are:

- Issuing refunds on the spot when subs visit the system's service office. (Previously, refunds would be issued within 10 days, no matter what.)
- Allowing service reps to fulfill all customer requests during a field call, without asking permission from a supervisor
- Automatic credit on a subscriber account when billing problems occur, without CSR requiring authorization.

Before the new policies were adopted, Concord employees went to retraining sessions with a focus on operating budgets. "We did that so people get a sense of why things must be done right the first time," Colletti says. "It costs us $42 for a repeat service call. If you don't understand the financial impact, you won't be able to create a mindset which generates quality customer service and works economically."

The cross-function and training programs will be expanded next year—just to be prepared against any possible competition. "We have two wires on every person's desk," says Colletti. "We're all back at ground zero and starting over." CV



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Susan – ops manager

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SUPERHIGHWAY by John Flinn

Paper or Plastic?

Ameritech and a small service provider hope to bag the grocery shopping market

What application is going to really drive new technology into the home market? Small service provider Peapod wants to scale back talk of superhighways. "We like to say Peapod is paving the information driveway, which is literally where all this is going to start," says VP of operations John Furton.

In September, Chicago-based telco Ameritech announced an investment in Peapod, an "interactive" (really online) grocery shopping and delivery service. Working with established grocers in its two initial markets—Jewel Food Stores in Chicago and Safeway in San Francisco—Peapod enables its subscribers to order groceries via a PC, and have the goods delivered within a set 90-minute window by khaki-clad Peapod drivers.

"Our service model is friendly people, superior service," says Furton. "It's critical that the head of lettuce you receive in your order is at least as good or better than the head you would have chosen as a consumer."

Peapod has 7,000 subscribers between the two cities. Yes, just 7,000. What kind of business is that, you ask? Better than it first appears. Each Peapod customer pays $29.95 up front for a membership starter kit, which includes the ordering software (either DOS or Mac based, with a multimedia Windows version for release next year), a user guide, and an installation/training video. Then each subscriber pays Peapod $39.95 a month, covering unlimited shopping and delivery. But still: Forty bucks a month is a pretty steep price to pay to avoid pushing a shopping cart once or twice a week.

Peapod has to make most of its money on subscriber fees (the grocer kicks in a small percentage). "We have two legs of the stool," says Andrew Parkinson, Peapod's president. "The biggest barrier to entry for the consumer is price, but we have to charge a high price because advertisers haven't participated. Once they do, it lowers the price to the consumer, and that would triple our volume of growth."

Part of Ameritech's interest, Furton says, is to take the service and develop a broadband application. In the current interface, shoppers see a listing of products with brand name, description, size and type of package, price, cost per unit, and whether it's a sale or special price. In the first quarter of '95, Peapod says, the display will include a picture of the product and its new FDA food label.

Peapod, an online service, enables its subscribers to order groceries via a PC, and have the goods delivered within a set 90-minute window.

"Broadband will make the entire shopping environment a much more visual experience," Furton says. "You could do full-motion video, manufacturers would have the opportunity to do promotional features with jingles or video, consumers could call up recipes or menu planning applications, then see an actual clip on how to separate egg whites or something."

Ameritech claims not to be so concerned with the interface. "The question of whether the play is a PC or television at the end user site almost doesn't matter. We don't know the answer," says Martin Nisenholtz, Ameritech's director of content strategy.

Peapod's business is attractive, Nisenholtz says, because of the nature of grocery shopping — "The sheer volume is so large, even if you only capture a small percentage, it's a huge business" — and for the insight it provides into this new kind of interactive transaction. "The consumer data the business spits out is very rich," says Nisenholtz.

Yet Nisenholtz admits Ameritech would like to see Peapod move onto a broadband platform.

Peapod expands into Boston come January. Parkinson says that will be it for a while, with the next significant growth not coming until '96 or '97. "We're fairly conservative, making sure the infrastructure is in place before the expansion takes place," he says.

And when Peapod's grocery service does expand into new markets in '96 or so, it may not be a service offered via the local cable operator. "The cable industry hasn't always done the best with the customer, face to face, which is why I placed my bet with a telephone company," says Parkinson. "Cable has to turn around their customer service if they're going to provide expanded services."

Jana Pittman and Brent Wheeler are just two of the more than 200 talented people at Prevue Networks.

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THE
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Overlooking the posh Castle Pines Country Club, about 20 miles south of Denver, is an unpretentious but well furnished residence known to U S West insiders as "The Cottage." It was here, over a period of about six months in 1992, that dozens of people spent hundreds of hours hammering out what became known as U S West's "Cottage Strategy."

It's a strategy that has resulted in bold maneuvers for a regional Bell operating company, but it hasn't come without considerable pain. As nervous investors have reduced their holdings, U S West's loss of market value has caused it to plummet from number 73 to number 96 in the Morgan Stanley Capital rankings of America's top corporations. In the wake of 9,000 employees getting pink slips, consumer complaints about deteriorating service have mounted. This has moved state regulators to launch investigations of the consequences associated with corporate "re-engineering."

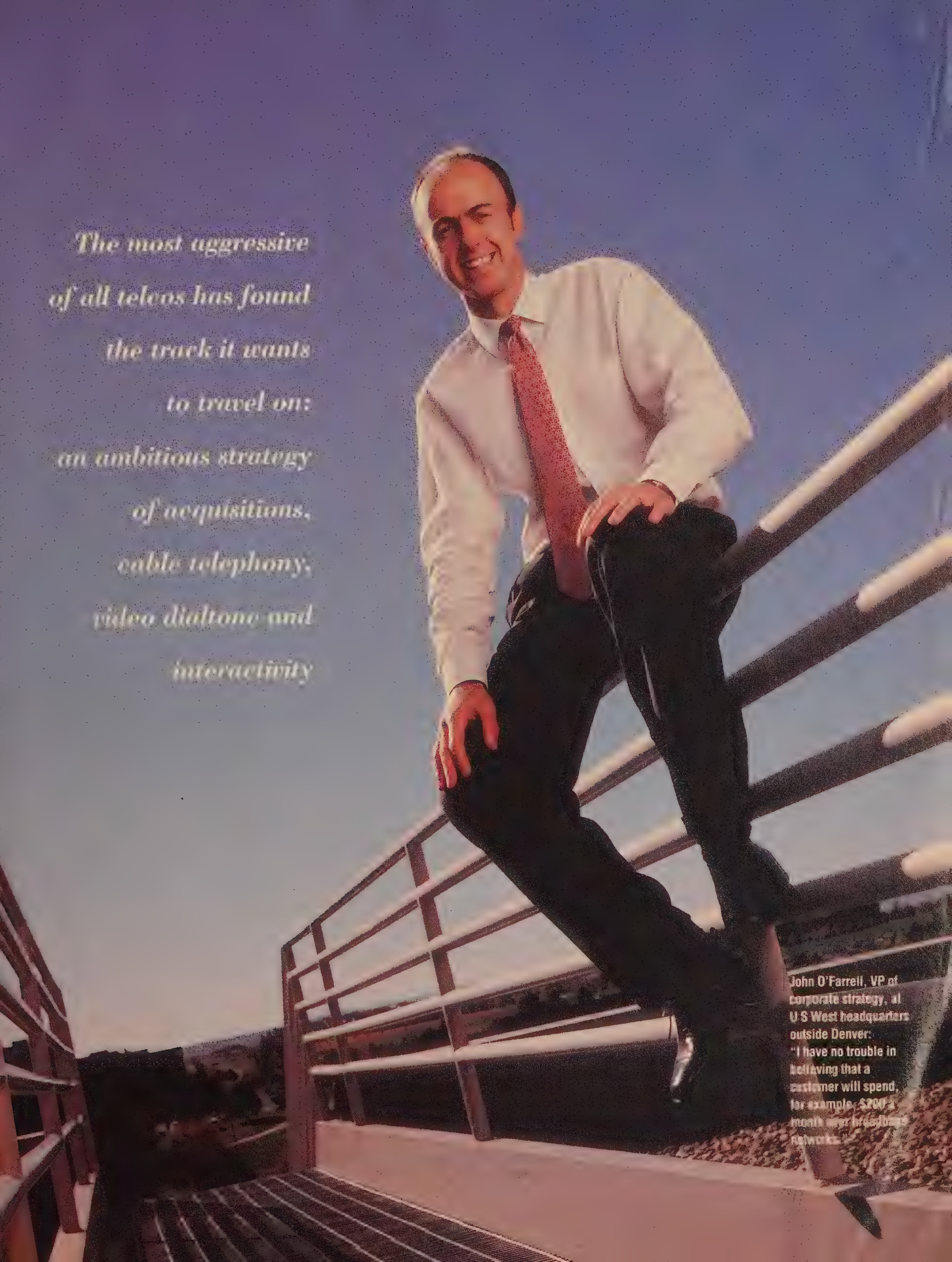
But pain is recognized as a temporary consequence that must be endured as the behemoth decides to re-invent itself. Says John O'Farrell, VP of corporate strategy, "We're acting on the basis of what we know is right for the long term. We intend and expect to be the hunter, not the hunted."

Indeed, the Cottage Strategy resulted in an aggressive broadband strategy on three fronts: the traditional business, which saw broadband as a huge in-territory growth vehicle; international operations, where broadband was already proving itself in U S West's joint TeleWest venture with Tele-Communications Inc.;

BY
TOM KERVER

PHOTO BY DAN SIDOR

The most aggressive of all telcos has found the track it wants to travel on: an ambitious strategy of acquisitions, cable telephony, video dialtone and interactivity



John O'Farrell, VP of corporate strategy, at U S West headquarters outside Denver: "I have no trouble in believing that a customer will spend, for example, $200 a month over broadband networks."

and the directory business, which regarded broadband as a means to distribute interactive services that it wanted to develop.

Beyond those forays, a fourth front manifested itself: the opportunity to make a thrust into the 90 percent of the phone market that U S West doesn't serve. Capitalizing on this, U S West last year made a $2.5 billion investment for 25.5 percent of Time Warner Entertainment (at press time, Time Warner reportedly was considering a corporate restructuring). This year, U S West announced the purchase of Wometco Cable and captured about 65 percent of the greater Atlanta market.

Also at press time, rumors swirled that U S West may acquire as much as 40 percent of Continental Cablevision, with an option to take majority ownership. It could also reach some kind of accommodation with Cablevision Systems Corp., which last year rejected what industry financial experts characterized as an "uncommonly generous" offer from the telco.

Through its cable relationship, U S West will work to develop broadband telephony and multimedia services in areas outside its phone service area. Inside its territory, where the RBOC is prohibited from offering phone service, it is planning interactive services through its video dialtone project in Omaha, Neb. VDT applications are pending in nine other markets.

With the addition of phone service to cable, Tom Pardun, president of U S West Multimedia Communications, the RBOC's out-of-region broadband subsidiary, says it's not out of the question for U S West to capture 30 percent or more of an incumbent telco's revenues.

For cable, U S West will serve as a both an ally and a competitive threat. It will help build the multimedia future that cable desires but also will march onto cable's turf through video dialtone. The largest of the competitive showdowns is likely to occur in Denver, where U S West's planned server-based digital network would be pitted against its TeleWest partner, TCI.

Furthermore, the completion of a Continental or Cablevision deal would represent a seismic shift in the cable landscape: technically, U S West, a telco, could have enough direct and indirect access to subscribers to become cable's largest MSO.

While U S West's endorsement of broadband tech may seem logical to most

The technology center houses more than 600 people.

Inside U S West's Advanced Technology Center

As the crow flies, it's only about four miles between CableLabs in Louisville, Colo., and U S West's Jack MacAllister Center For Advanced Technologies in Boulder. In terms of relative capability, however, the difference is cavernous.

At CableLabs, there are 47 employees. The MacAllister Center houses more than 600 people. And, overall, U S West employs about 4,800 people in its various advanced technology operations.

At one time, says U S West network architect Bill Weeks, there was serious conversation about the two facilities sharing information. Proprietary concerns and what Weeks describes as "different views of the marketplace" shelved that idea permanently.

Inside the center, Weeks and crew are designing the next generation of in-territory broadband systems, which can roll out once the FCC approves the RBOC's video dialtone plans. Applications are pending for Denver; Portland, Ore.; Minneapolis/St. Paul; Boise, Idaho; Salt Lake City; Albuquerque; Colorado Springs; Des Moines; and Cedar Rapids, Iowa.

U S West's much-publicized Omaha service, initially slated for 65,000 homes, has been delayed largely due to software integration matters. The only timetable for interactivity is whenever it's ready. One of the finishing touches will be a TV navigator that U S West already has quietly shown to some programmers.

Former Scripps-Howard Cable engineer Jim Wood, who's designing the Omaha network, says one of the biggest obstacles is the decade-old MFJ ban on U S West getting into manufacturing, which restricts what it can tell vendors. For example, U S West can't get involved in the design of the remote for the navigator even though it is setting the navigating standards.

Recently, U S West partner Time Warner was freed from MFJ manufacturing bans. Time Warner Cable Ventures CEO Glenn Britt concedes that could have positive implications for U S West, but he's careful how he says it lest MFJ czar Judge Harold Greene's feathers get ruffled. "Traditionally," Britt says, "we as operators have maintained very close relationships with vendors. Now, with the ban lifted, we expect that kind of relationship to continue."

With VDT, U S West can offer analog video without the need for set-top boxes, because VDT incorporates a wire-into-the-home interdiction architecture. With a digital set-top box added, U S West can offer new, unregulated services such as U S Avenue interactive home shopping or 3DO games.

For Denver and other VDT markets (not Omaha), U S West is developing a server-based digital architecture using ATM switches. Systems engineer Jim Selzer says the cost of ATM switches is declining rapidly. The decision to use ATM switching in Denver isn't predicated on amortizing the cost through video applications; U S West has data transmission very much in mind.

"Our fiber will be passing a lot of small businesses that have data transfer needs. We'd lose our shirts if we used servers solely for video-on-demand," Selzer says.

■ T.K.

cable observers, it hasn't been easy for any of the RBOCs to alter their traditional thinking and embrace other worlds.

But U S West's top management recognized U S West's strengths, accepted its weaknesses and was willing to move forward. The Irish-born O'Farrell worked out the details of the "Cottage Strategy" on behalf of executive VP Chuck Lillis and with strong support from CEO Richard McCormick.

"We began," says O'Farrell, "with a territory that traditionally stood at a relative disadvantage to other RBOCs. Though we cover 14 states, we have only about 10 percent of the total telephone market."

And since U S West hadn't been aggressive in acquiring licenses outside of its territory, the company ended up with a relatively weak position in cellular. "The good side of that," O'Farrell says, "is that we weren't blindsided to the potential of broadband." In other words, lacking wireless strength, U S West was compelled to focus on growth through a wire-based strategy.

Workers at U S West's advanced technology center are developing the next generation of broadband networks.

"We reached a fundamental conclusion that has driven our behavior ever since: the world will go broadband in terms of a wired network distribution medium," O'Farrell recalls.

In the process, the RBOC's innovators and its traditionalists found themselves in agreement—something that hasn't always been the case in other telephone companies.

Other telcos reached similar conclusions about broadband, "but they failed to act on them or acted partially," O'Farrell says, because their management "wasn't engaged to the extent that ours was." He points, for example, at Pacific Telesis: "Their senior management was so involved in wireless that their broadband people couldn't get anyone's attention."

The idea of using cable as the basis for telephony had been brewing at U S West since well before the "Cottage" meetings.

First came the technological success of TeleWest in Britain. Then, a U S West Communications executive, Tom Morrow, quietly began operating what O'Farrell calls a "Skunk Works" project.

"Tom was providing consulting services to cable companies that were interested in learning about telephony. His first customer was TCI. Later on, Time Warner started using his services. It became pretty clear, pretty fast that Time Warner might be a very interesting company to work with," O'Farrell recalls.

This, he says, ultimately resulted in "a

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marriage made in heaven" with Time Warner. As part of the marriage contract, Morrow moved over to Time Warner to head its telephony subsidiary, Time Warner Communications.

Morrow's colleague, Time Warner Cable Ventures CEO Glenn Britt, acknowledges the expertise that U S West brings to Time Warner: "I'm not sure if the outside world recognizes that this is far more than a passive investment on the part of U S West."

For example, U S West is providing skilled engineers with billing and "back room" experience to counsel Time Warner in its Full Service Network test in Orlando, Fla. "We'll give them whatever they need in the way of skilled personnel, be they temporary or permanent," promises Pardun.

While Time Warner can draw from U S West's telephony expertise, it is handling its own local exchange projects in Rochester, N.Y., Ohio and Manhattan. In Atlanta, it will be U S West that benefits from the partnership.

Through its Wometco acquisition, U S West plans to offer local exchange service in Atlanta. After switching is installed, the RBOC plans to have its Atlanta operations monitored from the new Time Warner National Operations Center in suburban Denver, just as Time Warner's telephony services will be.

Pardun explains, "We could align Atlanta and other cable systems we might acquire to our own operations facilities, but it's less costly and more convenient to monitor all cable-based telephony from a single place."

This also suggests that the U S West/Time Warner partnership is tighter than many have realized. O'Farrell puts it this way: "We have each committed ourselves to go beyond working together. We will invest jointly and reach unified strategic decisions wherever possible."

A Competitive Model

The U S West/Time Warner venture could become the business model that many talk about but few have created, a model in which partners work together on common goals but often compete in other ways.

Though U S West probably won't be competing against Time Warner in video distribution or telephony, interactive services that both companies are separately developing could well vie with one another over time. Ironically, one of the cable systems in U S West's Omaha trial area is a Newhouse affiliate being merged with Time Warner.

The big battleground for all communications players, says Pardun, is the local phone business. "I come from a long-distance background, and I believe we'll see in the local exchange a repeat of what happened when competition to AT&T emerged," he says.

He points out that even though AT&T enjoyed "a high degree of customer satisfaction...over time, a combination of good pricing and good marketing took 40 percent of AT&T's market share." He says "there's no such thing as a perfectly defensible position. Even the best incumbent will lose share. How much and how fast are the two unknowns."

Take Atlanta. Pardun says he respects incumbent BellSouth, but "I believe

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$2,500,000
Equity Investment by
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they've got an Achilles heel. We'll find that weakness and exploit it."

TCI, the Hunted?

A more titanic competitive struggle is taking shape within U S West's territory, between the RBOC and TCI, assuming the FCC approves U S West's video dialtone applications.

Although their U.K. partnership continues, what once appeared to be a love affair between the two giants, whose corporate headquarters are less than a mile apart, appears to be turning sour. U S West has been distancing itself from TCI in several respects.

First, although Morrow initially had courted TCI regarding telephony, Time Warner looked much more attractive to his company. Then, with obvious concurrence from partner U S West, Time Warner withdrew its planned investment in Teleport Communications Group, the competitive access provider in which TCI is a major investor.

Tom Pardun, president of U S West Multimedia Communications, forsees a battle for local phone business.

Next, following the scheduled conclusion of a joint video-on-demand trial in suburban Denver, U S West declined to continue with the run-on testing that TCI is conducting. Now, U S West is gearing up to construct in-territory digital networks that will compete against TCI not only in Denver, but also in suburban Omaha, Salt Lake City, Portland, Ore. and Seattle, where the RBOC won a court ruling on the right to offer video service.

O'Farrell doesn't want to draw any conclusions from this string of events, saying "relations with TCI continue to be excellent." But, having identified his company as a hunter, it's hard to believe that TCI isn't among the hunted. "Maybe, over time," he concedes, "competitive intensity will make it so we can't work together. But there's no evidence of that so far."

Both O'Farrell and Larry Levine, general manager of in-territory broadband for U S West, argue that neither they nor any competing cable operator has anything to lose if they play their cards right. Tests like Omaha will prove the mettle of multimedia services and create what U S West believes will be a pie that's big enough for everyone.

Levine says, "We'll be testing new, unregulated products, like U S Avenue, the interactive shopping service created by our Marketing Resources Group. As everyone knows, we'll offer customers the capability to play games using 3DO technology. Multiplayer games, we think, will be a big source of add-on revenue. And video-on-demand with five-minute start times will be even bigger."

O'Farrell calls it "marketing myopia" to believe that customers will restrict the amount they spend on delivery of goods and services through broadband media.

"I have no trouble in believing that a customer will spend, for example, $200 a month over broadband networks as

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An affiliate of
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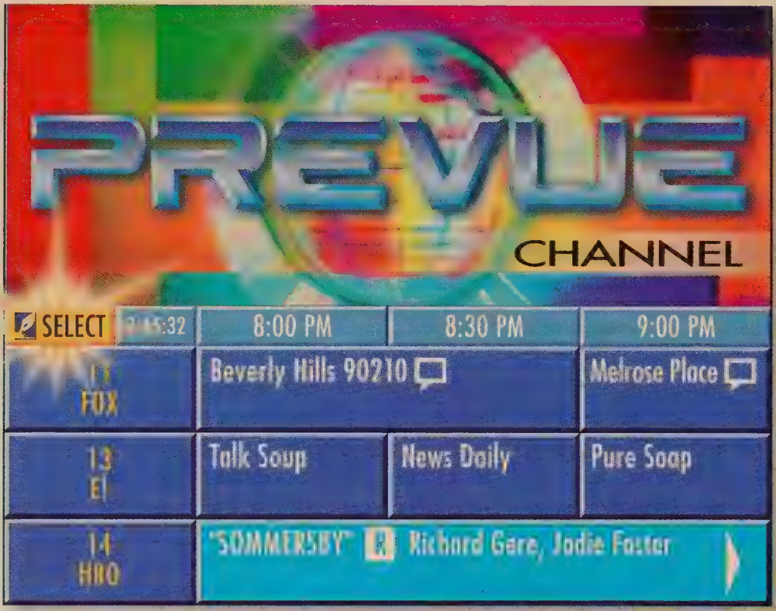
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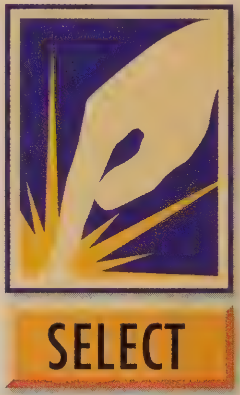

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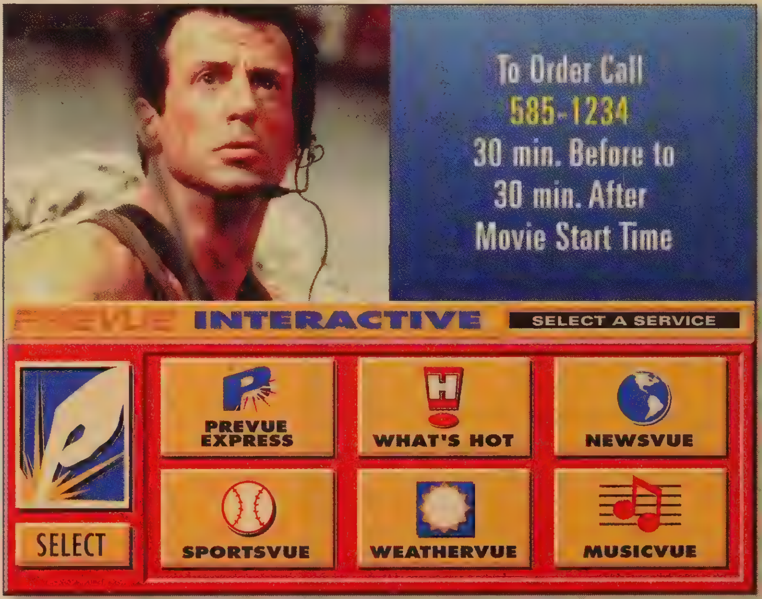
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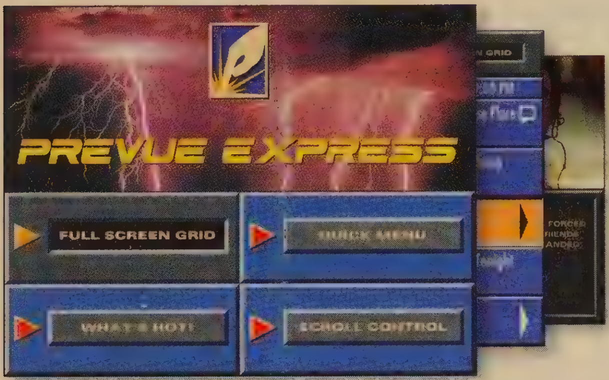
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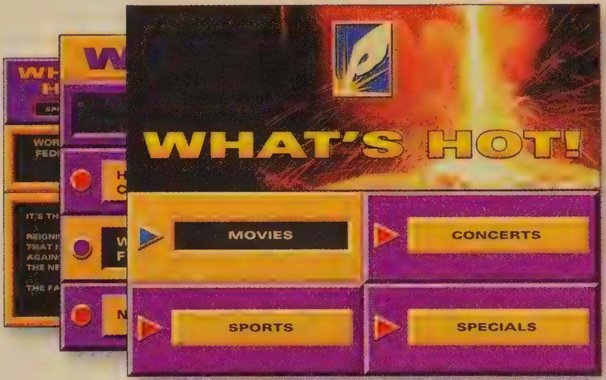
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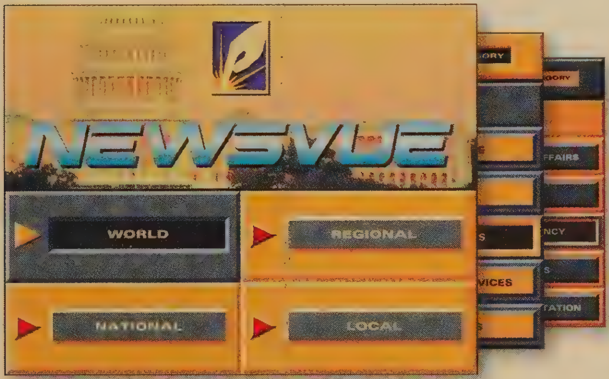
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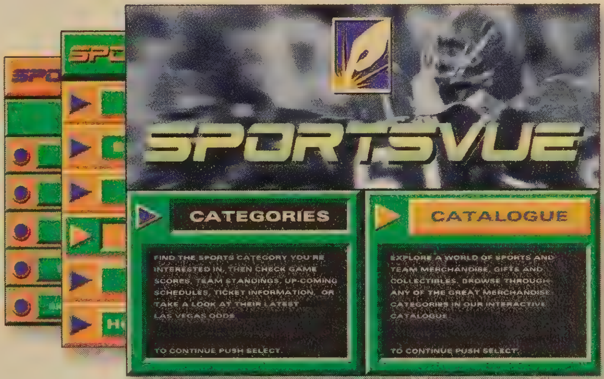
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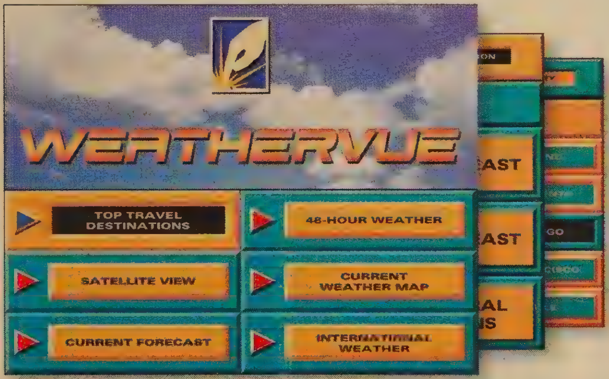
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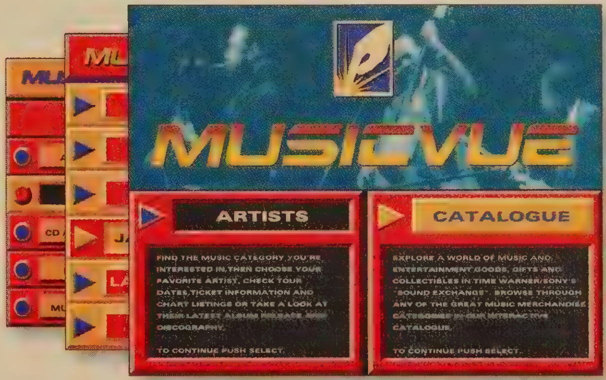
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U S West's Larry Levine predicts the multimedia pie will be big enough for everyone.

U S West EXPRESS

long as he's already spending that kind of money for similar goods and services delivered through other distribution means," he says.

Perhaps. But U S West's strategy isn't tied solely to those kinds of opportunities, at least not in the near term. Pardun says, "We think in layers."

First, there's the $30/month or so that customers have already demonstrated they're willing to pay for video services. Next, there's incremental revenue from telephony. "Views vary as to how thick that layer is, but it's for real," Pardun says.

Finally, there's broadband multimedia. U S West believes in it, though it isn't factoring any revenues from it into the price it's willing to pay for cable investments.

Undercurrents of Dissent

Is U S West's strategy risky? "There's a risk in anything," says O'Farrell, "but we think we've managed to cap the risk at a very low level, while still retaining tremendous upside."

Even so, investors are skittish. At press time, the company's stock price had dropped about 30 percent from its 12-month high, despite continued support from securities analysts.

A recent J. P. Morgan Securities report, for example, tells investors that there is "little risk of U S West executives 'sticking their heads in the sand' and failing to take action to counter rising competition." Salomon Bros. analyst Jack Grubman says U S West is "doing the right things to defend itself against competition and exploit growth opportunities."

Despite its relatively weak stock price, U S West had third-quarter revenues of nearly $2.8 billion, up over 7 percent from the year before, and its profit stood at more than $1 billion through nine months.

Yet O'Farrell recognizes investor concerns and is feeling the heat from consumer complaints—and state regulators— about poor customer service in the wake of employee layoffs.

He says the "investor reaction to our strategy will be skeptical for some time, because we still have a telephone investor base that's most comfortable with a steady earnings path and dividend payoffs. They find it difficult to offset the dilution in earnings with the cash flow to be generated from investments in cable and in international opportunities."

He adds, "Re-engineering always gets worse before it gets better."

Now the challenge, O'Farrell says, is to remain focused on goals. "If management's resolve wavers, we won't succeed. Or, if management doesn't think big enough, we won't succeed."

But that's not likely to happen. U S West has made its move, and now the rest of the world is about to see the result. CV

[redacted]

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Heim's Way

Former Showtime marketing chief Jack Heim aims to pull Nostalgia up by the bootstraps

By Jim Cooper

PHOTOGRAPH BY WOLFGANG FREITHOF

If it wasn't for linoleum, Jack Heim, president and CEO of Nostalgia Television, might not have made it in cable.

Fresh out of the University of Colorado, Heim landed a job at 23 as a traveling salesman selling floor covering. Heim remembers his first week-long, 1,000-mile swing through his territory — the entire state of Kansas — in the early '60s. Taking his potential customers' claims of not needing linoleum at face value, Heim didn't sell much of his product.

On his next tour a month later, he discovered a competitor had followed closely behind him on his first trip and had convinced customers that they really did need linoleum. The competitor sold out Heim's territory.

"I learned at that point that there is always a way to do things," says Heim, who laughs about the incident now.

Recalling that early lesson in salesmanship and tenacity should serve Heim well as he embarks on his new job: selling the value of Nostalgia Television.

That goal won't be easy to achieve. Heim, who left Showtime Networks three months ago after working there for 15 years, has taken charge of a network that faces uphill challenges. In the last 18 months, the network—which is controlled by Concept Communications which, through its president, Dong Moon Joo, who is also the publisher of *The Washington Times*, has indirect ties to the Rev. Sun Myung

Moon's Unification Church—has lost about one million subs. That's partly because of the network's inconsistent programming lineup, but re-regulation also forced operators to rethink their carriage situations. At that time, operators were inking retransmission deals with fX and CNBC, and they needed a place to put them.

Former MTV "VJ" Nina Blackwood hosts Nostalgia Television's *Dancin' to the Oldies.*

Many operators also dropped Nostalgia, says one operator who doesn't want to be identified, because its ownership was not strategically aligned with the cable industry. "And that's an understatement," that operator says.

It also didn't help Nostalgia's case that the company was distracted by lawsuits filed by former chairman and CEO Michael Marcovsky against the network claiming breach of employment contract.

"The powers to be spent more time litigating and filing lawsuits against one another than they ever did in developing meaningful programming, and that resulted in not being financed properly and kinda ending up with a weak service and certainly a weak marketing push," says Rod Thole, executive VP of Dallas-based Crown Media. "There was a real credibility gap."

The recent going forward rules won't make Heim's agenda for Nostalgia any easier. Like his peers, he will have to brawl to get on one of the six channels of capacity provided by the new rules.

"Jack and other programmers will have their hands full trying to convince an operator that, even under these rules, their services merit being carried financially," says Thole.

But, Thole, who has known Heim professionally and personally for the past 15 years, says he can't think of anyone better suited to face those obstacles and revamp Nostalgia.

Heim is, after all, credited with helping redefine the premium television business. And his long stint at Showtime, where he

was executive VP of sales and marketing, also revealed Heim as an aggressive and intense competitor in jockeying against HBO.

"Jack has a better understanding of what operators are looking for than any other CEO that has been associated with Nostalgia. And at the end of the day, for a programming service to work, it has to understand what the operator is looking for. And that is really going to give him the ability to make Nostalgia work," says Ajit Dalvi, senior VP, marketing and programming for Cox Cable.

However, off the record, other operators wonder if the channel's indirect ties with The Unification Church through Concept Communications will allow it to really become a independent programming force.

Pat Mellon, VP of programming for TeleCable, says the association with the church was intitially a point of concern for some. But even before Heim left Showtime, Mellon says, the network had begun to show signs of stability, with improved financing.

But he agrees about the importance of Heim's arrival at Nostalgia, which was founded by an Italian entrepreneur, Sergio Bosco, in the early '80s. "For the first time, the network has some credibility because of his presence," Mellon says.

Heim—a big man with intense blue eyes that at once convey a curious mix of sensitivity and a don't-mess-with-me attitude—calls the church's ownership of the network "a non-issue." Only reporters, he says, seem to be fascinated with that question. He also says the network has control over its own programming and that he wouldn't be there if it was any other way.

Instead, he is focusing on going forward—his own way. Like a good salesman, whatever the obstacles, Heim seems to exude confidence. In describing his blueprints for Nostalgia in the network's New York offices recently, Heim, a former halfback at Colorado, uses his large thick hands to illustrate his points.

"We're here now, SMACK!" (His left hand comes down on the table like a karate chop). "But we're going to be here soon." (Down comes the right on the other side of the table, with equal certainty).

The artillery that he's mobilizing to convince operators, says Heim, will include spending heavily to retool Nostalgia's programming schedule by offering newly acquired as well as original programming and aggressively promoting those changes.

And while seeing all that as crucial, Heim says that simply delivering what you say you're going to deliver to MSOs will make or break his network.

Burgers & Charge Cards

With the exception of a stint as a franchise owner of the now-defunct hamburger fastfood chain in the West called Griff's Burger Bars, Heim has always worked building businesses for others.

Heim sold off his Griff's Burger Bars holdings in 1967, after barely breaking even, and walked into an employment agency looking for a new direction. On the strength of his sales background, he landed a job in Chicago selling American Express money orders door to door to

Continued on page 45

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Nostalgia Will Evoke
'A Simpler Time'

It might take *It Takes A Thief* to nab viewer attention for Nostalgia

Focusing on the long-ignored group of 55-plus television viewers with a mix of acquired and original programming and shows, Nostalgia plans to create a television environment that recalls, in the network's own words, "a simpler time."

The call for programming for that demo is increasing as Baby Boomers age, says Jack Heim, the network's president and CEO. He notes that the demo group will number 70 million by 2000.

Heim says Marshall Cohen and Associates, a media research company Nostalgia hired to study Nostalgia's potential audience, found through focus groups that these viewers want to be taken back "emotionally" to a simpler era. They want programming they feel comfortable with, he adds.

Based on that research, Heim says Nostalgia will continue to steer clear of reality-based, violent and sexually explicit programming.

The Marshall Cohen research also concluded that those studied in the focus groups "firmly believe that the older shows are better acted and better written than what's being produced today."

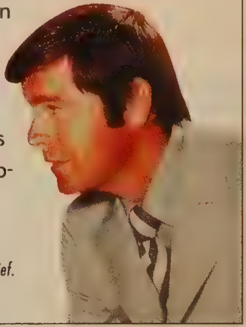
Heim, who has been at the network for about three months, has already made changes to its programming day and will continue to do so in January 1995. The network plans to add original programming to the mix by June.

The schedule changes that have been made during primetime since Heim's been on board include the addition of *Marcus Welby, M.D.*, *The Love Boat*, *Ironside* and *It Takes A Thief*. Heim says the new shows have helped bring average primetime ratings up from a .2 to a .4 and new shows in what he calls the "lifestyle" programming block in the morning have also added strength to the daily schedule over the past six months. Some of those shows include programming focusing on painting, crafts, cooking and travel.

Heim says that possible programming for the future on Nostalgia could include: Washington-based political discussion shows, shows discussing history's impact on the present, more classic television series, game shows, soaps, sports and movies and a music video show featuring jazz, classic country, blues and big bands to accompany the network's music shows, such as *Dancin' to the Oldies* with Nina Blackwood. Home shopping might also be a format that Nostalgia might try.

The network also plans to reschedule the number of programs during the Narrative Television Network block in the morning. The block makes television accessible to the blind and visually impaired with voiceover narration describing the on-screen action and settings.

Declining to discuss rates for Nostalgia, Heim says he will be working closely with operators, considering their needs as well as Nostalgia's need to increase ratings and subscriber rates. ■ **J.C.**



Robert Wagner(right) and Fred Astaire(left) co-starred in *It Takes A Thief.*

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Heim's Way

Continued from page 43

pharmacies, grocery and liquor stores.

He was eventually recruited in 1972, to be the first product manager for the corporate card program, which he helped develop and market. Heim moved through the ranks to his final position there as VP, general manager of the Commercial Market Group, before going to Showtime in 1980.

"For many of us he was Showtime," says Dalvi.

At Showtime, Heim says his focus was pricing and packaging the product in a way that delivered value and savings directly to customers, while others believed that a more general, image-oriented approach was the way to go. Heim says both sides worked well to help the category grow, but at the close of his tenure at Showtime, he was itching to run something based on his own philosophy.

"Jack is a builder," says Showtime president and COO Matt Blank, who worked with Heim at American Express in the early 1970s.

Heim agrees with that characterization. "Building something is clearly more fun than maintaining something," he says. "I wanted to run something."

Says Dalvi, "It is a challenge for Jack in that he is running his own show. He's going to make it or not make it—either way, it's going to be his baby."

Nostalgia could be his biggest challenge yet."We have to have shown a great deal of progress by the end of the first quarter in 1995," says Heim. "I think we're being given a grace period."

Dalvi, when asked how long Heim has to turn Nostalgia around, says, "He's got a couple of years."

"He's still got to deliver the programming that operators and consumers want to make the network a success," says Thole. He points to two key Heim qualities that could help get him there: his competitiveness and his "willingness to do what is right for operators."

That's going to be important.

Much like his old customers in rural Kansas, cable operators are going to have to be convinced in no uncertain terms that Heim's product—this time, Nostalgia — is something they really have to have. CV

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go DIGITAL

A New Roadmap

How is cable coping with the evolution to digital media? That's the question behind Go Digital, a new series of *Cablevision* special reports.

There are thousands of ways in which digital technology is going to affect the way the industry does business. To some, it's hundreds of channels of crystal clear video. To others, it's a billing system that can process thousands of orders in minutes. Some in the business think of digital technology as a means of communicating better with subscribers, through online networks or on-screen guides. Still others think of digital as the means to providing a fully switched two-way video network.

All of those visions, as varied as they may seem, are part of cable's transformation. Which gives you some idea why Go Digital was created.

These reports are not intended to talk about technology for its own sake. Go Digital is designed to look at the practices, needs and demands of the cable industry as it heads further into the Digital Age—and write about them in plain English.

In this inaugural report, Go Digital examines the present state of the digital revolution. It takes a look at one network's online programming, talks to operators about their experiences with digital ad insertion, and discusses backroom operations with an MSO expert.

It's all designed to help you Go Digital.

FUTURE
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ILLUSTRATION BY ALEXANDER VERBITSKY

You Say You Want A Revolution?

Hey Sonic, chill out. You of all digitally created creatures should know that digital technology is for real.

BY CHRIS NOLAN

Play any of those Sega games with Sonic the Hedgehog and a funny thing happens if you stop in midgame: after a few seconds, the hedgehog crosses her arms over her chest and begins tapping her foot. She (yes, we believe Sonic is a girl) looks out from the screen with an eyebrow raised in impatience. So, Sonic seems to ask, when do we get this show on the road?

It's digital technology that makes the hedgehog "real." And when it comes to the advent of the cable industry's own Digital Age, Sonic's not the only one tapping their foot. Many have been asking: What are we waiting for? When does the revolution begin? *Where is it?*

THINK DIGITAL IS NEVER GOING TO GET HERE? Or that when it does, it'll be so difficult no one will understand it? Well, you're wrong. Every day, almost every aspect of the cable industry is getting a little more prepared to Go Digital.

Some executives—mostly those from the computer-based side of the business—say there will indeed be a revolution, but all revolutions take time. "It's like the tortoise and it will win the race, but it's not coming as fast as anyone would like it to come," says William Grubb, CEO of ICTV, which is developing two-way television programs and services.

Still others say the Digital Age has already arrived. Just look at the growing number of products and services relying on digital technology.

"It's not a matter of, 'Is digital here or not?'" says Jim Chiddix, senior VP of technology and engineering for Time Warner. "Digital is something that's gradually seeping into telecommunications. Gradual is the key."

That's an oddly conservative comment from one of the people responsible for engineering Time Warner's Full Service Network, which will be unveiled in Orlando, Fla., this month. That two-way switched video network is expected to eventually provide subscribers with whatever they want to watch, whenever they want it. If digital has a Holy Grail, it's the Full Service Network. For many, it *is* the revolution.

OUTSIDE FORCES

The digital transition is gradual in part because it's created by forces out-

Continued on page 50

Digitize to Energize Sales

BY JIM FORKAN

Like the Starship Enterprise, cable operators using digital ad insertion are going where few have gone before. Now other systems are following the trail they're blazing and, like Captains Kirk and Picard, they'll likely encounter some flak along the way.

Those reporting back from this new frontier cite several benefits, both long- and short-term, derived from using digital insertion—based on down-to-earth results, not pie-in-the-sky claims.

Larry Zipin, corporate VP of ad sales, Time Warner Cable, told a Cabletelevision Advertising Bureau conference last summer that such advances as insertion will "lead to increased advertiser acceptance, increased value for our inventory, obviously increased revenue and ultimately increased cash flow and profit margins for us."

Continued on page 56

AD INSERTION TECHNOLOGY has always presented cable operators with opportunities—and headaches. New digital technology—which can play back images endlessly and on short notice—is giving operators the ability to go for a larger slice of the advertising pie.

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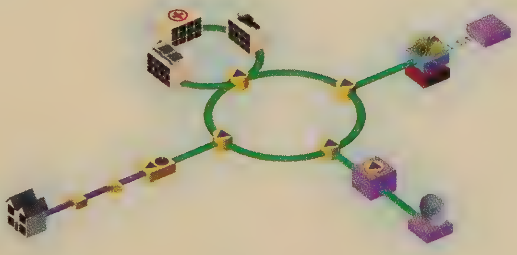

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ANTEC
Network Know-how

Want A Revolution?

Continued from page 48

side of the cable industry.

Many of cable's uses for digital technology are by-products of uses by related businesses, says Bruce Davis, president of TV Guide On Screen. Look at television production, says Davis. More producers are using digital technology to make TV shows because it's cheaper and easier in the editing process—and it produces clearer, cleaner pictures.

"All production is turning toward digital," says Davis. "They're doing it because they can create better product."

Digital technology, presently the most efficient means of delivering electronic content, is migrating into cable in hundreds of different ways:

- Electronic programming guides like the one Davis is developing rely on the same sorting and processing functions that make spreadsheet programs work on personal computers.
- Video games have always been digital, relying on cheap graphics and some rudimentary two-way processing. Shooting those games down a cable wire is just a way to meet demand in a new way.
- Digital audio services like Music Choice take advantage of technology that's already prevalent throughout the recording industry.
- Digital ad insertion relies on the tech's proven ability to replicate images without a deterioration in quality.
- Backroom ordering and customer service functions in other industries have long relied on digitally based computer networks to handle transactions.
- Online PC services are providing a way for cable programmers—already using digital video editing and production—to reach their viewers.

Those are some of the products and services that are getting attention because they're new to cable. But there are other applications that herald the arrival of digital that aren't as apparent.

Look at the digital frills in the tens of thousands of analog set-tops Time Warner is buying for the many cable systems that the MSO is upgrading. The boxes are called analog because the signals they receive aren't digital, but the devices rely on digital technology for addressability.

"We've been addressing set-tops since 1980. We've always addressed them digitally," Chiddix says.

The set-tops will use digital technology for more than just authorization. Depending on the vendor, they'll have on-screen displays and some messaging capabilities. They'll also have a memory that keeps track of favorite channels and allows parents to block out certain services. Also, almost all of the boxes coming off assembly lines today have electronic program guides.

"It's not a matter of whether digital is here, it's a matter of whether digital prices are here yet."

Gary Trimm, president of Scientific-Atlanta's broadband communications group

Those EPGs aone require computer chips that can handle complicated sets of tasks. But the good news is that the memory (to keep a model of the program grid, for example) and the processing (to transfer and translate program information from computer code to English) were a lot more expensive five years ago. In five more years, those capabilities will cost a fraction of what they do today.

PRICES OVER TIME

And yet, say some vendors, price still is the main barrier to widespread use of digital set-tops.

"It's not a matter of whether digital is here, it's a matter of whether digital prices are here yet," says Gary Trimm, president of Scientific-Atlanta's broadband communications group. "At one point, I would have described digital as invented technology, technology-on-demand. We are past that point."

Right now, he says, a set-top needs a dozen or so silicon chips to decompress digital video. That's less processing power than what was necessary a few years ago when decompression needed a series of boards all loaded with chips. But it's still not as inexpensive as a technology that needs only one or two chips.

When that level of technology occurs—Trimm says it will be sometime in 1997 or 1998—then the digital revolution truly is here. "That's when we get the price points," he says.

If the digital rollout occurs gradually, that may not be such a bad thing, industry experts say. Companies will have more time to get consumers prepared for new services and they'll be able to offer cheaper, more reliable equipment over time.

"There's a whole bunch of different phases," says ICTV's Grubb. "The stuff we're doing is really like building a nuclear submarine...There are so many parts to the system, other than the nuclear reactor."

One computer program that ICTV is developing has 500,000 lines of code, and making sure that code does what the engineers want it to is a massive undertaking. "You don't just go from driving a Boston Whaler to driving a 37-foot sailboat. There's a whole lot of things that have to be learned," Grubb says.

"I think the realization everybody's getting to: it's not simple to do," says Jacob Tanz, marketing director of business development for Intel Corp., which makes some of the chips Trimm

Continued on page 52

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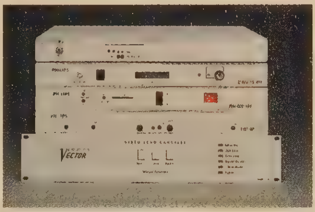
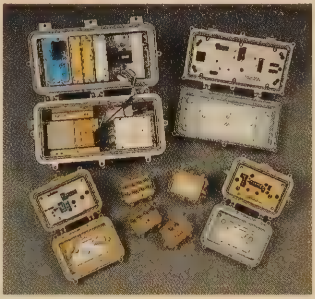
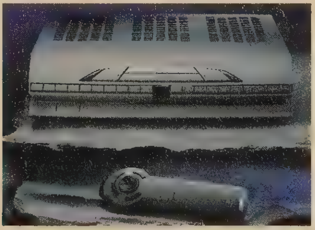






PHILIPS

PHILIPS

Want A Revolution?

Continued from page 50

is talking about.

The explosion in PC demand—which is now creating a revolution in how people think about television—didn't happen overnight, Tanz notes.

"When you sit back and you say 'Gee, it took so short a period of time'—I agree," says Tanz. "But it did take a good 12, 13 years to happen. I think this is the same kind of thing."

Intel believes that the use of home PCs—there are more devices being sold now for home use than to businesses—is the way cable will eventually find its way into the digital world.

The demand to move large amounts of data quickly will encourage operators to upgrade their systems and become two-way networks. Two-way capability is something telephone companies already have and cable doesn't, so there's additional incentive for cable to get moving, Tanz says.

Tanz, like Trimm, says the true digital revolution for cable will come in about three years. In 1997 or 1998, they say, digital video to the home will be on its way to becoming as commonplace as PCs are today.

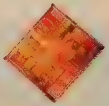
Others won't put a date on it, but they say the revolution won't be so gradual. Some say the revolution dates from the minute customers see some 500 channels of compressed video. Others say it's the moment cable plant delivers information services to PCs in a faster-than-you-can-think moment.

"When it's going to happen, how it's going to happen is a total mystery," says Davis. One day, he says, cable operators and other video providers really will wake up and find themselves in a different world.

"It all eventually comes together but not all because of some grand plan," Davis says. "There's a point at which this thing gets crazy." CV

A Digital Sports Bar —Without the Yutzes

BY JIM COOPER



ONLINE SERVICES are one of the hottest communications fads since the CB radio. It's computer processing power—the ability to display and transmit data on both ends of the pipe—that's helping networks like ESPN expand their product line.

Do you ever squirm at your desk at work, itching for the latest injury report on your favorite team or player? Ever abuse your eyes, strain your remote hand and give yourself a pounding headache on Saturday and Sunday afternoons trying to keep up with college and pro games?

Well, relief is here, but you're going to have to use a computer and hear a little ultra-hyped information superhighway bull along the way. But if you crave sports information at your demand, it might be well worth your while to check out ESPNET on Prodigy.

Like it or not, the "online" age is here. If you have children, this is not news. Little kids play Gameboys at baseball games. Colleges are starting to require students to have Internet addresses before they even register for classes. The future is computer literate and growth of online services will be as big as cable in the early 1980s, if not bigger. So, if you are shy about checking it out, well, you're history.

"We're bringing a lot to the party. We want to be involved early and throroughly as it [online services] emerges."

ESPN's Dick Glover

That's the last thing that ESPN's Dick Glover wants. The network's senior VP is very clear that ESPN is psyched about taking sports, sports coverage and sports fandom to the next level with ESPNET.

"We're bringing a lot to the party. We want to be involved early and throroughly as it [online services] emerges," says Glover.

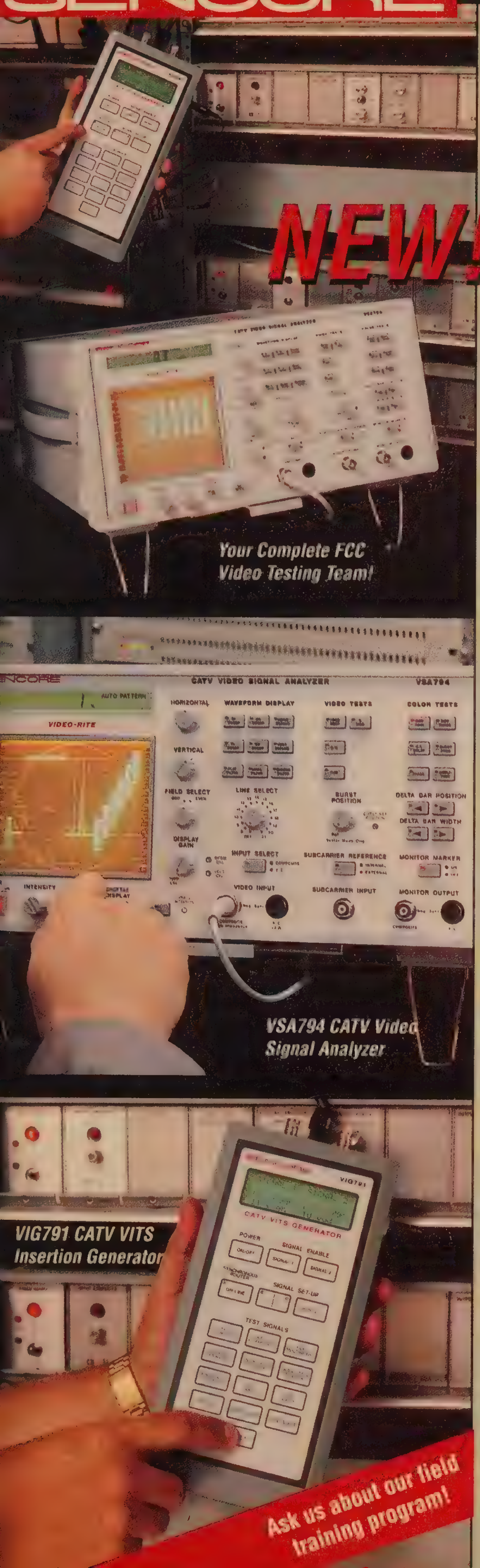
Glover says ESPN and ESPNET will focus on the job of delivering sports content and leave hardware issues surrounding satellites and set-top boxes for someone else. "We're not getting into areas beyond our area of expertise," he says.

ESPN execs decline to discuss fees, but Prodigy reportedly pays ESPN about $2 million a year for the online sports information. ESPN will share the subscriber fees drawn by the service. The network is also considering what other online platforms might work for ESPNET and will be adding more employees in 1995.

Here's how it works. You need a computer, a modem and a phone line.

Continued on page 54

SENCORE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A Digital Sports Bar

Continued from page 52

You pay $9.95 a month for Prodigy, and, ba-da-bing, ba-da-bang, you're online with about 2.1 million other people — about six in 10 use ESPNET more than any other service on Prodigy.

"By introducing this interactivity, we will be able to make ESPN, ESPN2 and ESPN Radio both broad national networks and narrow personalized services simultaneously," says Glover.

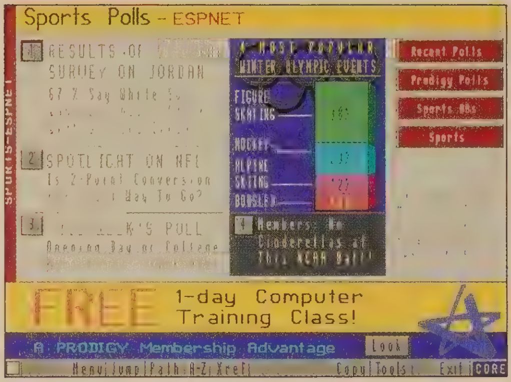
ESPNET on Prodigy has been up and running for a year. A recent demo by Tanya Curry, manager of ESPN Enterprises, revealed the service is not only easy to use, but it has as much or as little sports information as you want — i.e., you don't have to sort through screens of stats if you don't want to.

Eric Schoenfeld, senior coordinating producer of ESPNET, says the service provides news and info not readily available anywhere else, enhances network programming, and serves as a two-way communications tool with the live computer chat rooms and bulletin board that the service offers.

"Instead of talking, they're typing," says Schoenfeld.

The service is cool because it's — here comes that ultra-hyped media word — interactive, but in a simple and fun way. Let's say you're interested in talking about the weekend's big college football game. While most yutzes are down at the local sports bar spilling beer on themselves and screaming opinions at each other, you could be having a chat with ESPN's producers and on-air talent in a computer room set up on ESPNET.

The service is festooned with bright color graphics and works from general to more specific news and information. For example, baseball can be broken down into branches of information such as stats and player history. The service's on-screen guides make shifting through the endless and quickly changing updates, opinions and reports intriguing to the point that you might get fired if you subscribe at work.



Of the 2.1 million Prodigy subscribers, six in 10 use ESPNET, more than any other service on the online network. The above Sports Poll screen is one of dozens of offerings available to ESPNET users.

The uninitiated sitting down in front of ESPNET will first see a sign on a graphics "page" on their computer screens. Turning deeper into the service's computer pages with mice (plural of mouse) a clicken, users will next see a news highlights page from Prodigy and the option to choose the ESPNET portion of the service. ESPNET has 11 different sports to choose from; each has a wide variety of editorial services, polls, forums and, if so desired, deep statistical info.

Presently, the service has an audio component that subscribers with the appropriate PC equipment can use to hear color commentary or analysis. The service also has the capability to show color photos of players and ESPN talent on-screen.

Curry explains that real-time video on the service is an eventuality. "It's very close," she says.

"Over time, as we move toward full multimedia and also begin delivering ESPNET over cable to personal computers and televisions, the convergence of the media will accelerate," says Scott Kurnit, Prodigy's executive VP, consumer products, marketing & development.

For Glover, reaching out into the future will only make content providers like ESPN stronger in an environment where hardware companies are being forced to spend billions of dollars to create the next generation of communication platforms.

"This is the logical extension of ESPN," he says. CV

Online Dabblers

The growing popularity of online services is evident in the number of cable networks that are playing with the technology. With an eye on what could be a vital part of their business plans going forward, networks ranging from MTV to Court TV are using online applications to compliment their programming. Here's a list of 10 online dabblers, just a few of the available services.

NETWORK	PLATFORM	SERVICE
ESPN	Prodigy	ESPNET
Comedy Central	Prodigy	Play MISTee For Me
Court TV	America Online Prodigy CompuServe	Court TV's Law Center
MTV	America Online	MTV Interactive
CNN	CompuServe	CNN Online
Bravo/IFC	Prodigy	Prodigy's entertainment hub
The Discovery Channel	America Online	Discovery Online
The Family Channel	Prodigy	TFC Online
E!	Prodigy America Online CompuServe	E! Online
America's Talking	Prodigy	AT's center on Prodigy

MAKING IT go

PROVIDING NEW SERVICES is going to force cable operators to transform their back office operations into fully computerized, efficient systems. TCI was lucky to find Sadie Decker, former chief information officer for Martin Marietta, to handle much of its transition. In this Making It Go interview, she discusses this evolution with senior editor Simon Applebaum.

What message do you have for cable operators concerning the future evolution of this industry?

Decker: They've got to be very cautious in the decisions they make. Certain new products will be enormously successful, others will not.

Because there are no digital standards widely accepted by the cable and telephony industries, the whole decision process becomes very complicated.

How should operators get from their current state to a digital environment?

Decker: The first thing is build a business case. Look at the revenue opportunities, the capital and debt in relationship to that.

Step two is try to get the most reliable technical solutions. If you haven't got reliability, you haven't got anything.

Sadie Decker, senior VP, advanced information technology, Tele-Communications Inc.

Third, figure out, based on your system size, where you want to go in the market. If you're big, you'll have one strategy. If you're medium-sized, you'll have another, and small a third.

One thing that cuts across all three categories—you have to have a communications network capable of moving data and information. Whether you do that through a public-shared network or your own private network, that's essential. I'm not sure everyone in this industry knows that. This is a new phenomenon for this business. For companies like Federal Express, it's old news.

What should operators be doing now to realize this future?

Decker: The first thing they must have is a back office. Whether they buy it from the CableDatas of the world, or set one up internally, they have to have it.

The new back office is substantially different from what's been there before. The reason it has to be, first, is that it takes longer to build than anything else.

The second thing is get a two-way switched network up. That goes easier, faster. The third piece is product. What the product is depends on where you are. The killer app won't be the same thing everywhere.

Let's take games. Everyone thinks they'll be some really exciting situations which cut across all markets [but] games can be entertainment, they can be intellectual, like puzzles and math exercises. There's a whole wide spectrum that people think will be very compelling.

Who should companies hire? Where should those people come from?

Decker: They will hire engineers from high-tech schools. The race is on for these people everywhere. The MSOs have discovered that in the defense industry, there are a lot of sophisticated people there.

There's just not enough qualified software engineers [in cable]. It's a classic supply/demand situation right now.

What kind of equipment should operators have in place ?

Decker: Switched digital networks. Phone guys do; cable guys don't.

ATM ultimately, but the price points aren't there right now. They're going to have to learn the whole file service world—not video server. Cable people refer to file servers as a video server—it's not. It's a computer.

We don't have the cable people in place that know how to design, build and service those computers—the same computers you see in a modern back office.

How affordable will this equipment be for MSOs?:

Decker: If I were a small operator, I might outsource this. It might be too hard getting the equipment together, or putting the manpower together to pull it through.

I think you'll see small and mid-size MSOs do this. The big operators will have enough money to get the equipment and people together.

How should the MIS system an operator has in place be prepared for future applications?

Decker: The software must handle high volume, online transaction processing. They must be able to creatively package and market their product without major software revisions. You have to be able to move very quickly and flexibly into new applications.

Scalability—that's a critical decision point. You must invest in computer gear that is scalable. That means it can get bigger and bigger without collapsing.

What's TCI doing to get from here to there?

Decker: We're fixing the back office by building a large private national network. We're building all new systems from accounting to marketing to billing. We're about 40 percent [through] the effort.

Some [elements of the] system are on line, some will go on line soon and the rest won't be operational until 1996. The marketing end will be up Jan. 1. Our switched digital network has been running for nine months. The MIS system will go into its first technology test by the end of the year.

On the other side of the house, our venture capital division is soliciting and working on new products, applications and services. They will invest in companies with promising technologies or can work in promising areas. It's like boring a tunnel on two directions and we meet in the middle.

Generally, what will it take for operators to offer telephony services?

Decker: A partner. *(Laughs)*

The cable companies will act like RBOCs. For all practical purposes, we will be the local carrier. We'll get you to sign up for telephone, and by the way, try our cable service as well.

This [MSO alliance with Sprint] is a compelling joint venture when you stop to think about it. You have these MSOs working together putting fiber systems together and Sprint's fiber optics system. If everyone can make this work, this is a significant deal...And from a marketing point of view: Murphy Brown comes to cable.

STARNET
DVSS
STARNET
Controller

Computer keyboards, controllers and other equipment like this from StarNet help make digital insertion happen.

Energize Sales

Continued from page 48

The more immediate benefits of going digital, says Gene Brown, sales manager, Continental Cablevision's Cable Advertising, including the 337,000-sub Greater Boston interconnect, are: "elimination of long insertion deadlines, more targeted geographic and demographic sale zones, cost-effective expansion of insertable channels and improved picture quality and playback reliability."

LOOKING AT COSTS

But at what cost? At CAB's summer conference, Brown said wryly that cable is "truly on the leading edge—and perhaps bleeding edge—of this technology," a remark greeted by knowing laughter.

Pricing for insertion gear varies by each site's specifications, from number of channels and zones to amount of storage capacity, notes Ed Delaney, VP of sales and marketing, SeaChange Technology, whose hardware partner is Digital Equipment Corp. A small 12-channel system with one headend may pay about $200,000, he adds, whereas larger systems have paid $2 million. The bulk of the cost is in the computer hardware, and "prices are dropping," Delaney says.

StarNet development execs say a system seeking a 16-channel inserter at one headend would spend about $220,000.

The initial investment is such that "you wouldn't do it if you were inserting on under 18-25 networks," Zipin notes.

He predicts that even small systems (under 50,000 subs) should be able to afford the technology within two years. If not, those that are contiguous might consider "pooling their resources"—sharing both the technology and the costs. "That's what we're doing in Albany," says Zipin, who also chairs CAB's technology advisory committee.

One operator who's seen savings is David Proctor, ad sales general manager for TCI of Utah and Idaho; he's been using StarNet for over a year at Mountain Cable in Salt Lake City. When initially faced with leaping into "the semi-uncharted waters of digital," Proctor recalls, TCI was "comfortable with the analog technology but not comfortable with the technology of the future."

Yet, the 215,000-sub system saw that re-investing in analog "just didn't make good business sense:" It would cost "over $970,000" for new analog gear to handle 16 channels at seven Salt Lake City headends—versus "a little bit over $1 million" for digital.

Mountain was spending 18 man-hours a week, or $10,300 a year, to bicycle tapes on the so-called “sneaker net” to the headends, including wages and vehicle maintenance, he explains. About $32,000 a year went into maintaining 130 three-quarter-inch decks and $15,000 into 54 analog inserters.

By replacing bicycling with a wide area net, whose frame relay connects all seven headends, costs come to $28,000 yearly, plus $4,400 to maintain the headend levels—or $17,000 less in annual operating costs than analog, Proctor notes.

FAST TURNAROUND

Everyone foresees that digital ad insertion will cause local ad revenue to mushroom, in part from accounts able to insert on networks that systems previously couldn’t offer, and from clients lured by the quick insertion-inspired turnarounds. There’s also potential for highly targeted commercial placement—what Zipin calls “video direct mail.”

At Capital District Cable Advertising Network, the Albany, N.Y., interconnect including Time Warner, TCI and NewChannels, the systems can now receive a commercial on tape and “run it 30 minutes later,” says Tony Esposito, president of Time Warner Cable’s Albany division.

In its analog era, “it took almost a week to insert an ad in the traffic flow,” he says. Consequently, insertable systems now can compete against dailies for advertisers with short lead times.

“There are regional, national and local dollars that we miss because we can’t turn around as quickly as radio does,” adds Steve Rizley, general manager, Greater Phoenix Interconnect.

Using DEC since March, Rizley says going digital to him means not only insertion on 16 channels and handling 32,000 spots a month, but also the ability to deliver households on a zip code basis. This “greater specificity,” he says, is “what we’re calling Dynamic Zoning.”

Zipin also praises the DEC system for giving the Albany interconnect and TWC unaccustomed placement flexibility. “We can insert more ads on more combinations of networks and geographic zones, and move ads around our inventory more rapidly,” he says.

Systems in three zones—Albany, Schenectady and Troy, each offering 10 channels—can run a client’s spot on all 30 channels, or individual spots targeted to narrower geographic or demographic areas, on any subset of channels or zones.

As Time Warner and DEC outlines it, this interconnect uses 34 Intel 486-based PCs from Digital joined in an Ethernet local area net. SeaChange developed the applications software, working with Digital.

Commercials arriving in tape form, once digitized and compressed, are stored in a PC with a Digital StorageWorks disk drive that acts as a video server. Three PCs, one per zone, are used to schedule the play frequency for each spot, and to track the number of channels each spot should run on.

Lastly, scheduling info is passed to the 30 Digital PCs (one for each insertable channel) that access spots from the server and handle the timing and cablecast of the spots.

With analog, each incoming spot had to be recorded on a separate master tape for each channel in the media buy. Now, each tape is digitized and stored just once.

Brown adds that with digital, some interconnects will encode and transfer as much information on a quarterly basis “as exists in the Library of Congress,” yet the gear itself physically occupies much less space than its analog equivalent.

SOME THORNS, TOO

This generally rosy picture is not without its thorns, however. Brown says the big hurdle, besides cost, will be learning “new concepts, new skills and a new lexicon.” The transformation will be “at least as much about managing human beings as it is about information technology or machines”—all of which is, he admits, “a little intimidating.”

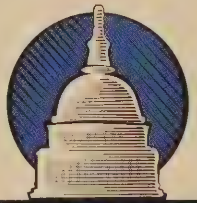
Moreover, snafus can occur. Rizley recalls, “We lost $40,000 in the East Valley building over a two-week period,” due to “interface issues” and other problems caused by lack of knowledge.

Zipin says, “Whenever you go through any change, you’re going to encounter potholes. There’s a learning curve, certainly, but the positives outweigh the negatives.”

Dick Olmstead, director of ad sales at the 190,000-sub Milwaukee Cable Advertising, an interconnect using Channelmatic hardware since February, says digitized systems need a chief engineer who’s a computer expert. “Like any computer program, the syntax has to be perfect” for the best results.

While many operators elsewhere may be taking a go-slow attitude, Zipin says, “It’s really a question of what do you have more faith in at this point? A 486 computer or a 10-year-old VCR? I know where I put my money.” CV

Bipartisan Promises



by CHRIS NOLAN

It's long been a truism among cable, broadcast and telephone lobbyists that telecommunications is an area where partisan politics are kept to a minimum. Well, this is the year we find out whether that little hackneyed expression holds true.

It's a whole new game in Washington, with changes going on everywhere. Republicans are running the House of Representatives for the first time in a generation, and there are going to be thousands of changes in the House. Committees are going to change in title, jurisdiction and leadership. Rules governing how the Republican-led House deals with legislation on the floor may change substantially. Already the man expected to be Speaker of the House—Newt Gingrich (R-Ga.) has announced changes in who can vote on the floor of the House.

In the Senate, it's been 10 years since they had to move the furniture around so the transition is a little easier. But things are still going to be different. Sen. Bob Dole (R-Kansas) is going to call the shots in the Senate. Dole's had the job before—only last time it was with a Republican president. And it's important to remember that Dole thinks of himself as presidential material, equally or better qualified than most of the people he's seen get that job.

But for right now, there's lots of talk about bipartisan cooperation in the House and Senate. It could be that there's real goodwill involved and that it's not just being trotted out so the winners can make a half-hearted attempt to make the losers feel better. It could also be that there's nothing to fight about.

If the telecommunications law doesn't pass in '95, it's gone until '97

Take for example, the comments being made by the soon-to-be Senate Commerce Committee Chairman Larry Pressler (R-S.D.). Pressler, unlike his Democratic predecessor, says he's anxious for the Clinton administration to participate in passing telecom legislation.

"I think there's plenty of opportunity and credit to go around in this whole thing," Pressler told reporters a week after the election. "I would love to see Al Gore get involved in this and make it his project and I wouldn't mind a bit if he got all the credit for it."

That's an abrupt contrast to the way the Democratic Congress behaved last year. "We kept a low profile on purpose last year," says a member of Vice President Al Gore's staff. "The bill had to be written on the Hill. The bill had to be passed on the Hill."

So the White House, which didn't want to politicize the process, kept out. At least that's the official line. Privately, other White House aides conceded that bad relations between Senate Commerce Committee Chairman Fritz Hollings (D-S.C.) and Gore inhibited what they could do in the Senate.

So Republicans may be better for telecommunications legislation's passage. "The only cloud on the horizon is it's not part of the things they plan to do at the outset," says a White House aide. "If they're looking for things to pass that we can sign, telecom is one of them."

But this Congress isn't like last Congress. So much is changing, it's hard to tell what's going to happen. Whether telecommunications remains a bipartisan set of issues depends on how much emphasis the White House decides to place on passage of the legislation. It depends on how much interest Gingrich—who has a firm grasp on many of the intricacies of telecommunications reform—takes and how he wants to play the politics. It depends on how members of the subcommittees get along in their new roles. And it depends on the various compromises and accommodation among industries and among politicians that are part of the passage of any legislation.

Because one thing is pretty clear: If the legislation doesn't pass in 1995, it's gone until 1997. "I believe if we do not pass a bill in 1995, we will not be able to pass a bill in 1996 because of partisan politics," says Pressler. "If we take a look at the landscape, we may have a unique opportunity here in '95." CV

Winners & Losers

Once you get past the second-hand anecdotal material and some questionable assessments of important cable companies, *USA Today* columnist Kevin Maney's new book, titled *Megamedia Shakeout: The Inside Look at the Winners and Losers*, has value. If nothing else, it provides insights into just about every new-media wannabe.

After evaluating strategies, Maney takes the admirable risk of picking winners and losers. In most cases, his rationale is sound. Since it's all but impossible to predict how policy makers and legislators will influence things, any bets on winners and losers must be highstake ones.

The approaching year end seems like an appropriate time for this column to pick some winners and losers of its own. But first, we'll tell you who Maney likes and dislikes. His projected winners are AT&T, Disney, Motorola, Hewlett-Packard and John Malone (but not necessarily TCI). His projected losers are Pacific Telesis, Sprint, DirecTv, Apple Computer and Barry Diller. Those are pretty good picks. Mine are more narrowly focused because they don't consider interactive and computer stuff, which aren't likely to matter much anytime soon. My choices are:

by TOM KERVER

Who's got something to celebrate? And who's in the dumps?

WINNERS

1. U S West/Time Warner Entertainment. This powerhouse combo, spearheaded by U S West on the distribution side, will lead all comers into cable/telephony. The assets of Time Warner's copyright product smooth out the rough edges.

2. Cox Cable. Jim Robbins and associates will have much to smile about. Cox is beautifully clustered, well financed, even more nimble than TCI and ready to take on any partner who thinks like U S West. That could be SBC Corp. SBC remains entrepreneurial, and the good markets are disappearing quickly.

3. Cablevision Systems. Whatever he does, Chuck Dolan will exercise exceptional cleverness and an extraordinary understanding of the consumer. He could still sidetrack the Continental/U S West alliance by agreeing to link up with Time Warner. It's the logical thing to do.

4. Bell Canada. Glenn Jones couldn't have picked a better partner if he had Aladdin's lamp. This company understands competition. It's been fighting entrepreneurs like Ted Rogers for years. Consequently, it has long since shed its bureaucratic telco mentality. Having Northern Telecom in the family is a huge bonus.

5. TCA Cable. Bob Rogers and Fred Nichols run one of the best ships in the business.

LOSERS

1. Small Cable Operators. Unless they're willing to invest a lot more capital or they're somehow immune to competition, they've got problems.

2. TCI. The Emperor will still have lots of clothes, but his wardrobe could become somewhat tattered. TCI must pay a big price to defend years of scattershot acquisitions against telco incursions. Re-positioning into 21st century clusters and upgrading systems will exact a huge toll, and the company is already perilously close to losing its investment grade status. Even the influx of Republicans to Washington won't deter federal agencies from firing broadsides that hurt TCI more than it will admit.

3. DBS. More than DirecTv, all the DBS players face financial disappointment. Not that they'll go broke; they just won't make lots of money. The market for $1,000 dishes (or even $500 dishes) isn't big enough. You've got to be awfully mad at your cable operator to commit to such a costly divorce.

4. Viacom. They've foresaken broadband for tape rental at a time when things seem to be moving in the opposite direction. Global MTV isn't enough. Viacom's biggest assets: Frank Biondi, Tom Dooley and Paramount.

5. Your Choice TV. John Hendricks started out with a great concept: design and market the new world navigator. Now, well-heeled telcos have smothered his navigator, and a pay-per-rerun concept is all that remains.

6. New Programmers. A plethora of great new ideas lack a forum. Those who can hold out for at least a couple more years may get an airing. CV

DATABASE: TIP SHEET

A guide to upcoming programming and pay-per-view highlights for local marketing and ad sales campaigns.

PROMOTION AND AD SALES TIE-INS

NETWORK	CAMPAIGN	RUN TIME	CONTACT
Bravo	*Arts For Change* Hold performing arts workshops for at-risk kids	Through Feb. 1, 1995	Caroline Bock (516) 354-2222, ext. 760 (marketing)
Comedy Central	*The Way We Help Each Other In A Big Way* Conduct blood donor drives using *MST 3000* tie-in	Through March 31, 1995	Mark Barron (212) 767-8886 (marketing)/ David McCoy (212) 767-8742 (ad sales)
The Learning Channel	*Bright Ideas* Ad ties to how-to shows, including community beautification	Through June 30, 1995	Lori McFarling (301) 986-0444, ext. 5641 (marketing)/ Tammy Shay (301) 986-0444, ext. 5465 (ad sales)
MTV	*Enough Is Enough* Present concerts, other events promoting non-violence	Through Dec. 31	Howard Handler (212) 258-8390 (marketing)
TV Food Network	*Let's Make Sure Everybody Eats* Community activities for anti-hunger telethon special	Through Dec. 31	Stacey Artandi (212) 398-8836 (marketing)
The Travel Channel	*Ultimate World Tour '95* Local ad project, sweepstakes for travelogue special	Jan. 30-Feb. 26, 1995	Tom Lucas (404) 801-2435 (marketing)/ Lisa McCabe (404) 801-2455 (ad sales)

PAY-PER-VIEW HIGHLIGHTS

EVENTS

EVENT	DISTRIBUTOR	DATE	RETAIL PRICE
Brazilian Pro Soccer Championship	ESPN	Dec. 18	$14.95
Starrcade '94	World Championship Wrestling	Dec. 27	$24.95
Boxing: Pazienza vs. Duran II	TVKO	Jan. 14	$24.95
WWF Royal Rumble '95	TitanSports	Jan. 22	$24.95
Boxing—Participants TBA	Top Rank	Jan. 28	$24.95

MOVIES

MOVIE	DISTRIBUTOR	MONTH	BOX OFFICE GROSS
When A Man Loves A Woman	Touchstone	January	$ 44.2 million
Beverly Hills Cop III	Paramount	January	$ 39.4 million
I Love Trouble	Touchstone	January	$ 28.0 million
Jurassic Park	Universal	February	$ 340.1 million
Speed	20th Century Fox	February	$ 119.4 million
Maverick	Warner Bros.	February	$ 99.5 million

Event/movie source: Various PPV services   BO Source: *Video Business* magazine
Cable Premieres source: Various networks

CABLE PREMIERES

ORIGINAL SERIES, SPECIALS AND MOVIES

NETWORKS	DATE
Nickelodeon *Special* Allegra's Window	Dec. 21
Travel Channel *Special* The Edinburgh Military Tattoo	Dec. 23
USA *Series* Super Dave's Vegas Spectacular	Jan. 7
Lifetime *Special* Rocking the Boat: Women Race for the America's Cup	Jan. 8
TBS *Series* Live from the House of Blues	Jan. 27
The Discovery Channel *Special* The Promised Land	Feb. 12-13
Cartoon Network *Series* World Premiere Toons	Feb. 20
Showtime *Series* The Outer Limits	March 26
ESPN/ESPN2 *Special* The Extreme Games	June 24-July 5

To submit items for consideration, send to: **TIP SHEET**, c/o *Cablevision*, 825 7th Ave., 6th Floor, New York, N.Y. 10019. Or fax (212) 887-8585. Items should be submitted with enough lead time for system promotion/ad sales campaigns.

Communications will never be the same.

The partnership with Sprint, TCI, Cox and Comcast means the convergence of local, long distance and cable services will finally be a reality. How can you profit from this change? Find out more about telephony over cable at booth #2369.

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Cox Cable Communications, Inc.

COMCAST®
CORPORATION

® TCI

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NETWORK ADVERTISING PERFORMANCE

(Second Quarter 1994)

The following data, from Nielsen Media Research's Monitor-Plus service, shows the top advertisers on 17 basic cable networks and how well these networks performed for them. The percentages show how much the advertiser spent on these basic networks versus broadcast network and syndicated television during the quarter. The Gross Rating Point figures show the aggregate amount of ratings received by those cable programs carrying the advertisers' commercials.

CATEGORY/TOP FIVE ADVERTISERS IN CATEGORY	TOTAL DOLLARS SPENT ON CABLE (in 000s)	PERCENT SPENT ON CABLE	TOTAL U.S. HOUSEHOLD GRPS
GENERAL	$ 209,579.9		
1) Hasbro	33,405.5	15.9	14371.4
2) McDonald's	11,960.8	5.7	3223.7
3) Mattel	11,403.6	5.4	4365.6
4) Nintendo	8,464.1	4.0	2577.5
5) Pepsico	5,700.4	2.7	1583.9
BUSINESS	$ 115,974.7		
1) AT&T	12,932.9	11.2	2372.1
2) American Express	6,769.4	5.8	1127.4
3) MCI	6,697.9	5.8	1554.4
4) U.S. Government	5,806.7	5.0	1277.9
5) Sprint	5,683.2	4.9	1120.2
FOODS	$ 105,606.6		
1) Kellogg's	10,604.1	10.0	3502.8
2) General Mills	10,177.1	9.6	4024.7
3) Procter & Gamble	9,014.5	8.5	3257.0
4) Anheuser-Busch	8,414.6	8.0	1661.1
5) Philip Morris	8,158.5	7.7	2908.3

CATEGORY/TOP FIVE ADVERTISERS IN CATEGORY	TOTAL DOLLARS SPENT ON CABLE (in 000s)	PERCENT SPENT ON CABLE	TOTAL U.S. HOUSEHOLD GRPS
DRUGS & TOILETRIES	$ 100,040.2		
1) Procter & Gamble	24,778.9	24.8	8093.8
2) Soloflex	9,563.1	9.6	2208.5
3) American Home Products	7,533.5	7.5	3356.5
4) Johnson & Johnson	5,224.9	5.2	1589.2
5) CML Group	3,470.1	3.5	679.4
TRAVEL	$ 92,655.7		
1) General Motors	18,888.6	20.4	3846.3
2) Chrysler	7,426.4	7.8	1377.4
3) Ford	6,355.9	6.9	1549.6
4) Nissan	4,501.1	4.9	1049.3
5) Toyota	3,883.6	4.2	818.7
HOUSEHOLD PRODUCTS	$ 74,691.2		
1) Procter & Gamble	9,471.0	12.7	3616.4
2) Clorox	6,349.0	8.5	2816.1
3) Sony	5,578.9	7.5	1156.0
4) Philips	2,572.1	3.4	701.0
5) S.C. Johnson	2,571.6	3.4	902.3
APPAREL	$ 24,401.8		
1) Levi Strauss	5,176.3	21.2	1225.8
2) J.C. Penney	2,938.7	12.0	952.8
3) VF	2,510.9	10.3	510.4
4) Sara Lee	1,907.7	7.8	705.2

Source: Nielsen Media Research Monitor-Plus data for second quarter 1994, based on 17 cable networks: A&E, BET, CNBC, CNN, Discovery, ESPN, Family, Headline News, Lifetime, MTV, TNN, Nick/Nick at Nite, TBS, TNT, USA, VH1 and TWC
Household GRPs based on total U.S. television households

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The following segmented prime time audience ratings information is derived from Nielsen Media Research's Personal NAD (National Audience Demographics) facility, a PC-based system able to deliver personal audience information within market breaks for all national television programming sources—broadcast, cable network and syndication.

Included are the following basic cable networks: A&E, BET, CNBC, CNN, Cartoon, Comedy, CMT, Discovery, E!, ESPN, ESPN2, Family Channel, Headline News, The Learning Channel, Lifetime, MTV, Nickelodeon/Nick at Nite, Nostalgia, Prevue, Sci-Fi, TBS, TNN, TNT, The Weather Channel, USA, VH1 and superstation WGN. These figures are for second quarter 1994.

MULTIPLE SET HOUSEHOLDS/KIDS*

NETWORK	COVERAGE AREA HOUSEHOLD AVERAGE AUDIENCE%	NETWORK	COVERAGE AREA HOUSEHOLD PROJ. (000)	NETWORK	CHILDREN 2-11 VPVH
USA	2.3	USA	1074	CART	779
TBS	2.2	TBS	1022	NICK	395
TNT	2.1	TNT	956	BET	194
CART	1.7	ESPN	738	PREV	192
ESPN	1.6	NICK	602	MTV	158
NICK	1.3	LIF	484	SCI-FI	142
LIF	1.1	DISC	449	USA	106
WGN	1.1	A&E	430	ESPN	85
A&E	1.0	CNN	418	FAM	81
DISC	1.0	FAM	406	TBS	71
CNN	0.9	TNN	395	VH1	70
FAM	0.9	MTV	314	WGN	70
TNN	0.9	WGN	273	DISC	65
MTV	0.7	BET	162	TNT	64
SCI-FI	0.6	CART	123	LIF	61

URBAN-SUBURBAN/TEENS* †

NETWORK	COVERAGE AREA HOUSEHOLD AVERAGE AUDIENCE%	NETWORK	COVERAGE AREA HOUSEHOLD PROJ. (000)	NETWORK	PERSONS 12-17 VPVH
USA	2.2	USA	969	BET	243
TNT	1.9	TNT	846	MTV	243
TBS	1.8	TBS	798	VH1	141
ESPN	1.5	ESPN	675	SCI-FI	121
CART	1.3	NICK	502	CMDY	103
NICK	1.1	LIF	439	PREV	101
A&E	1.0	A&E	422	NICK	69
LIF	1.0	CNN	401	USA	64
CNN	0.9	DISC	401	ESPN	57
DISC	0.9	FAM	350	TNT	50
WGN	0.9	MTV	279	LIF	45
FAM	0.8	TNN	276	DISC	37
TNN	0.7	WGN	214	TBS	35
MTV	0.6	BET	142	WGN	35
SCI-FI	0.5	HDLN	120	FAM	30

PROFESSIONALS, 40K+/MEN**

NETWORK	COVERAGE AREA HOUSEHOLD AVERAGE AUDIENCE%	NETWORK	COVERAGE AREA HOUSEHOLD PROJ. (000)	NETWORK	MALES 25-54 VPVH
TNT	2.0	TNT	219	TLC	182
ESPN	1.6	ESPN	176	HDLN	153
TBS	1.6	TBS	176	ESPN	140
CART	1.5	USA	160	DISC	139
USA	1.4	CNN	130	CMDY	130
CNN	1.2	DISC	105	TNT	111
DISC	1.0	A&E	94	TWC	111
A&E	0.9	NICK	91	CNBC	106
WGN	0.9	LIF	82	CNN	103
LIF	0.8	FAM	74	VH1	100
NICK	0.8	MTV	69	A&E	97
FAM	0.7	WGN	55	TBS	90
TLC	0.6	HDLN	42	WGN	76
MTV	0.6	TLC	36	FAM	61
CMDY	0.5	TNN	35	MTV	54

CAR PROSPECTS (or CAR BUYERS)/ADULTS ** ††

NETWORK	COVERAGE AREA HOUSEHOLD AVERAGE AUDIENCE%	NETWORK	COVERAGE AREA HOUSEHOLD PROJ. (000)	NETWORK	ADULTS 18-49 VPVH
TNT	2.3	TNT	297	ESPN	222
USA	2.2	USA	287	E!	214
TBS	1.9	TBS	240	HDLN	211
ESPN	1.6	ESPN	204	TLC	206
CART	1.4	CNN	141	PREV	191
WGN	1.2	A&E	137	CMDY	182
A&E	1.1	LIF	124	TNT	179
CNN	1.1	FAM	119	SCI-FI	173
FAM	1.0	NICK	106	VH1	166
LIF	1.0	DISC	100	TWC	153
DISC	0.8	WGN	88	WGN	147
NICK	0.8	TNN	84	BET	144
TNN	0.7	MTV	60	CMT	141
TLC	0.6	BET	44	LIF	131

MULTI-INCOME, 40K+/WOMEN**

NETWORK	COVERAGE AREA HOUSEHOLD AVERAGE AUDIENCE%	NETWORK	COVERAGE AREA HOUSEHOLD PROJ. (000)	NETWORK	FEMALES 18-49 VPVH
TNT	2.3	TNT	276	CMT	157
TBS	1.9	TBS	226	CMDY	121
ESPN	1.7	USA	214	LIF	115
USA	1.7	ESPN	208	VH1	112
CART	1.6	NICK	129	NICK	102
NICK	1.1	A&E	116	TWC	102
A&E	1.0	DISC	112	A&E	99
WGN	1.0	LIF	102	TLC	86
DISC	0.9	CNN	101	HDLN	81
CNN	0.8	MTV	88	MTV	79
LIF	0.8	FAM	80	FAM	76
FAM	0.7	WGN	64	DISC	74
MTV	0.7	TNN	53	CNN	73
BET	0.5	VH1	42	ESPN	73

INCOME 60K+/MEN**

NETWORK	COVERAGE AREA HOUSEHOLD AVERAGE AUDIENCE%	NETWORK	COVERAGE AREA HOUSEHOLD PROJ. (000)	NETWORK	MALES 25-54 VPVH
TNT	2.2	TNT	340	TLC	180
ESPN	1.6	USA	262	ESPN	177
TBS	1.6	ESPN	260	CMDY	173
USA	1.6	TBS	243	DISC	168
CNN	1.2	CNN	189	TNT	161
A&E	1.0	A&E	149	E!	160
DISC	0.9	NICK	141	A&E	126
NICK	0.9	DISC	136	CNN	124
CART	0.9	LIF	116	HDLN	124
WGN	0.9	FAM	86	TWC	119
LIF	0.7	MTV	85	CNBC	116
FAM	0.6	TNN	68	SCI-FI	112
MTV	0.5	WGN	66	VH1	103
TLC	0.5	HDLN	50	TBS	101

COLLEGE GRADUATE/ADULTS**

NETWORK	COVERAGE AREA HOUSEHOLD AVERAGE AUDIENCE%	NETWORK	COVERAGE AREA HOUSEHOLD PROJ. (000)	NETWORK	ADULTS 25-54 VPVH
TNT	2.0	TNT	292	E!	301
TBS	1.5	USA	227	CMDY	293
USA	1.5	TBS	217	HDLN	270
ESPN	1.4	ESPN	215	ESPN	244
CNN	1.3	CNN	195	TWC	225
A&E	1.1	A&E	151	SCI-FI	213
CART	1.0	DISC	125	CNN	212
DISC	0.9	NICK	118	DISC	203
WGN	0.9	LIF	111	TNT	203
LIF	0.8	FAM	82	TLC	200
NICK	0.8	MTV	71	VH1	198
FAM	0.6	WGN	71	CNBC	188
MTV	0.5	HDLN	53	A&E	178
SCI-FI	0.5	CNBC	43	PREV	165

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* M-SU 8:00-11:00 pm ** M-F 8:00-11:00 pm VPVH=Viewers per 1,000 viewing households
† County coverage areas A+B †† Bought car in last 3 years

Source: Nielsen Personal NAD Facility, 2nd Quarter '94

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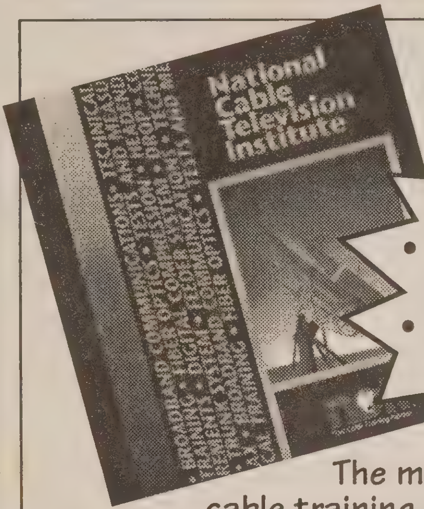

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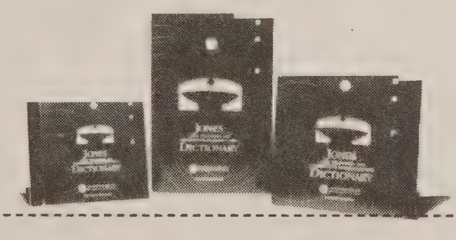

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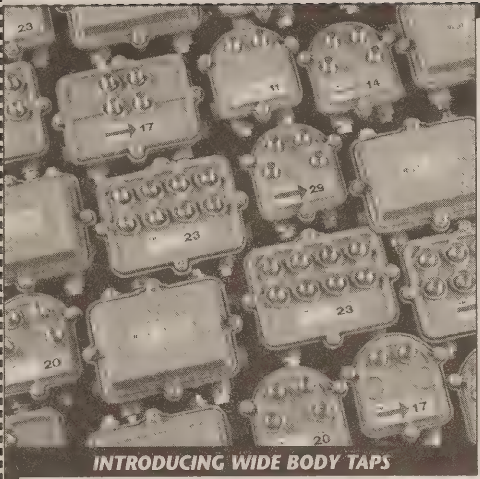

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America's Talking	500	10,800,000
American Independent Network	N.A.	N.A.
American Movie Classics	4,100	48,541,755
Americana Television Network	N.A.	800,000
Arts & Entertainment Network*	9,800	59,114,000
Black Entertainment Television	2,745	39,779,000
The Box*	166	21,000,000
Bravo	530	17,650,000
Canal de Noticias (new)	N.A.	N.A.
Caribbean Satellite Network	4	332,481
CNBC	4,000	50,932,000
Cable Health Club	9	600,000
Cable News Network*	11,636	62,774,000
The Cartoon Network	1,003	11,653,000
Channel America	13	429,300
Classic Arts Showcase	N.A	N.A.
C-SPAN	4,711	60,600,000
C-SPAN II	1,195	34,200,000
Comedy Central	2,679	31,296,000
Country Music Television	5,487	24,895,000
Courtroom Television Network	825	15,235,000
The Discovery Channel	10,139	61,968,000
E! Entertainment Television	1,611	27,034,000
ESPN*	26,500	63,104,000
ESPN2	1,485	15,200,000
EWTN	1,079	32,000,000
Faith & Values Channel	1,350	20,640,700
The Family Channel	10,303	59,502,000
Fox Net	738	2,822,466
fX	1,500	18,000,000
fXm/Fox Movie Studio (new)	N.A.	N.A.
Galavision	329	2,300,000
The Game Show Network (new)	N.A.	N.A.
GEMS Television	3	100,000
The Gospel Network	N.A.	N.A.
Headline News	6,700	54,355,000
Home Shopping Network	1,526	22,100,000
Home Shopping Network II	770	19,700,000
The Idea Channel	N.A.	750,000
Independent Film Channel	1	130,603
The Inspirational Network	750	8,500,000
International Channel	182	5,600,000
Jones Computer Network (new)	N.A.	N.A.
Kaleidoscope (formerly America's Disability Channel)	176	15,000,000
KTLA	343	5,500,000
KTVT	501	2,400,000
Las Vegas Television Network	N.A.	N.A.
The Learning Channel	2,439	30,197,500
Lifetime	5,865	59,088,000
Mind Extension University*	1,035	25,793,378
MOR Music Television*	120	5,196,431
MTV	8,707	59,457,000
MTV Latino	7	635,982
MuchMusic	N.A.	N.A.
The Nashville Network*	13,583	59,323,000
National Access Television	7	1,500,000
National Empowerment Television	15	2,085,940
Network 1	N.A.	N.A.
NewSport Television**	N.A.	N.A.
Nickelodeon	9,616	60,929,000
Nick At Nite	4,381	51,250,000
Nostalgia Television	771	10,320,000
Product Information Network	N.A.	1,500,000
Q2/OnQ	450	10,800,000
QVC Network	4,575	47,500,000
The Sci-Fi Channel	3,000	16,455,000
SCOLA/News Of All Nations	50	4,500,000
The Talk Channel (new)	N.A.	N.A.
TBS Superstation*	11,807	61,896,000
Telemundo	528	13,320,000
TeleNoticias (new)	N.A.	N.A.
TNT	9,069	60,960,000
The Travel Channel	830	20,074,000
Trinity Broadcasting Network	3,100	26,600,000
Turner Classic Movies	244	2,000,000
tv! (new)	493	5,600,000
TV Food Network	431	7,587,000
Univision	908	13,804,548
USA Network*	12,500	63,193,000
ValueVision	70	5,950,000
VH1 (formerly VH-1)	5,692	49,373,000
Via TV	N.A.	N.A.
The Weather Channel	5,500	55,643,000
Worship	N.A.	900,000
WGN*	14,354	35,056,000
WPIX	638	9,700,000
WSBK	91	577,000
WWOR	3,100	13,500,000
Z Music	635	8,635,243

PAY SERVICES	AFFILIATES	SUBSCRIBERS
ANA Television Network/Arab-Net	2	10,000
Canal Sur (Channel South)	3	9,000
Cinemax	5,900	6,700,000
The Disney Channel	6,500	7,730,000
Encore	1,130	5,100,000
Encore/Action-Adventure (new)	N.A.	N.A.
Encore/Love Stories	N.A.	N.A.
Encore/Mystery	N.A.	N.A.
Encore/True Stories (new)	N.A.	N.A.
Encore/Wam! (new)	N.A.	N.A.
Encore/Westerns	N.A.	N.A.
The Filipino Channel	4	5,000
Flix	300	900,000
Home Box Office	9,300	18,000,000
The Movie Channel	3,250	2,700,000
Showtime	6,000	7,600,000
Starz!	N.A.	1,000,000
TV Asia	N.A.	N.A.
TV-Japan	17	10,000

N.A. denotes information not available.

*Includes low-power television/MMDS/SMATV systems

**count represents standalone affiliates/subscribers; portions are carried on various regional sports networks

Send updates to: Subscriber Count Database, *Cablevision*, 825 7th Ave., 6th Floor, New York, N.Y. 10019. Or fax (212) 887-8585.

NETWORK SUBSCRIBER COUNTS

AUDIO SERVICES	AFFILIATES	SUBSCRIBERS
AEI Spectra Network	160	5,000,000
C-SPAN Audio Network	112	6,600,000
C-SPAN Audio Network II	50	3,200,000
Cable Radio Network	175	4,225,000
Digital Music Express	700	300,000
KJAZ Cable Radio Network	27	2,000,000
KLON	14	800,000
Moody Bible Institute	48	750,591
Music Choice	140	156,000
Superaudio	305	7,500,000
WFMT	122	900,000

TEXT SERVICES	AFFILIATES	SUBSCRIBERS
EPG	96	1,678,000
EPG Jr.	750	564,000
Reuters NewsView	127	2,437,000
Sportsvue*	40	1,189,708
TMS Business Plus	44	1,900,000
TMS News Plus	70	3,900,000
TMS Sports Plus	12	500,000
Story Vision Network	40	2,200,000

CHANNEL PROMOTION/GUIDES/ INTERACTIVE SERVICES	AFFILIATES	SUBSCRIBERS
The Employment Channel	7	1,500,000
Main Street	3	85,000
Prevue Channel	1,171	37,056,000
The Sega Channel (new)	12	N.A.
Sneak Prevue	465	24,600,000
Sports Trakker	1	N.A.
Starnet	960	23,000,000
TV Guide On Screen (new)	2	176,000
X*Press	1,100	14,000

REGIONAL BASIC SERVICES	AFFILIATES	SUBSCRIBERS
Arizona Sports	2	380,000
Atlanta Interfaith	3	225,000
Bay Area Religious Channel	6	113,000
Bay TV (new)	28	903,000
Cable TV Network of New Jersey	34	1,700,000
The California Channel	86	3,455,634
ChicagoLand Television News	105	1,200,000
The Ecumenical Channel	9	170,000
Empire Sports Network	24	617,998
Home Sports Entertainment	650	3,700,000
Home Team Sports	250	2,500,000
KBL Sports Network	225	2,000,000
La Cadena Deportiva/Prime Ticket	22	1,000,000
Madison Square Garden Network	229	5,100,000
Meadows Racing Network	17	700,000
Midwest Sports Channel	450	1,005,000
New England Cable News	60	1,010,050
New York 1 News	8	1,335,000
NewsChannel 8	9	730,000
News 12 Long Island	1	675,000
Orange County NewsChannel	11	512,000
Pennsylvania Cable Network	35	930,623
Pittsburgh Cable News Channel (new)	18	500,000
Prime Sports/Intermountain West	112	465,237
Prime Sports/Midwest	47	284,799
Prime Sports/Rocky Mountain	186	1,222,735
Prime Sports/Upper Midwest	24	302,638
Prime Ticket	175	4,200,000
SportsChannel Chicago	210	2,245,472
SportsChannel Cincinnati	65	1,223,819
SportsChannel Florida	91	1,600,000
SportsChannel Ohio	46	1,276,000
SportsChannel Philadelphia	66	1,900,000
SportSouth	415	3,555,000
Sunshine Network	203	3,571,500

REGIONAL PAY SERVICES	AFFILIATES	SUBSCRIBERS
New England Sports Network	185	400,000
Prism	65	400,000
Pro-Am Sports	265	800,000
SportsChannel New England	215	1,400,000
SportsChannel New York	127	1,546,000
SportsChannel Pacific	55	2,100,000

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*formerly Cable SportsTracker

Send updates to Subscriber Count Database, c/o *Cablevision*, 825 7th Ave., 6th Floor, New York, N.Y. 10019. Or fax (212) 887-8585.

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Fax: (214) 680-9643
Contact: Stephanie Stewart
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Contact: Mr. Don Starcke
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Contact: Daniel E. Davids
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Northern Telecom
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Contact: Mark Hess
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Fax: (605) 335-6379
Contact: Brad Johnson
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Contact: Ingrid O'Canas
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The Travel Channel
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Contact: E. Roger Williams
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Contact: Betsy Dirnberger
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Contact: Beverly Voelz
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THE LAST MILE

BY TOM KERVER

Customer Satisfaction Myths

As anyone who's ever attended a CTAM function can attest, few things should be as important to cable operators as developing and retaining a strong base of satisfied customers. But, how far should one go in attempting to achieve that objective?

Perhaps not as far as some might believe, according to a professor and two doctoral candidates at Northwestern University's prestigious Kellogg Graduate School of Management.

Writing in a recent issue of the *Sloan Management Review*, the three question the validity of dogma such as "the customer is always right." They call that particular notion "utter nonsense."

In an effort to focus attention on the real meaning of good customer service, these three iconoclasts pay little heed to the platitudes of hot new books, such as *Competing For the Future*, recently published by the Harvard Business School. Its primary conclusion is that "companies that create the future do more than satisfy customers; they constantly amaze them."

The Kellogg group persuasively counters that, "Despite the pervasiveness of managers striving to 'exceed their customers' expectations,' this point of view has its limitations."

What sorts of limitations? Consider this argument: "Achieving customer satisfaction is an admirable goal, but a firm must answer to multiple sets of customers (e.g. consumers, boards, shareholders), many of whose goals may be in conflict....From a shareholder's point of view, businesses are not in business to satisfy customers; businesses are in business to make money."

Then, there's the "utter nonsense" about the customer always being right. "Studies of product liability constantly attribute at least half of product failures to customer misuse. In addition... some customers are uninformed, unrealistic and demanding. Most businesses have certain segments of customers who are not profitably worth satisfying," the authors argue.

Next, there's that matter of "exceeding customer expectations." You have to be careful not to carry this zeal to the point of jeopardizing the price/value relationship, argue the authors.

What sets the great customer-oriented service provider apart from others, the authors believe, is how well they perform in "value-added" areas. "Customers assume the core offering will be of high quality. It is a given. And, while a poor core will result in customer dissatisfaction, a good core execution is not sufficient for customer satisfaction."

With competition on the horizon for cable, this is an especially important point. Competitors all provide a degree of competency in their core products. Planes arrive safely, or the airline goes out of business. Hotel rooms all have decent bedding and other basics required for overnight stays, or customers will shun them.

CUSTOMER
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PLACE

A contrarian view questions whether the customer's always right

Thus, customers are more likely to choose service providers on the basis of "value-added" performance, which is more readily apparent and easier to evaluate. For example, say the authors, "Interpersonal skills differ greatly from physician to physician and attorney to attorney; and hotel room and lobby accoutrements also vary widely."

Then there's the matter of customer service guarantees. According to the book, they're dangerous because they will only be as good as the employees empowered to implement them—and, even the best employee has mood fluctuations.

Now comes the real killer for some cable operators. "Those firms that have been customer focused all along will show stronger performance than those firms that have only recently turned their attention to satisfying their customers, perhaps in reaction to increased competition. Continual efforts toward improvement, even if slow, are superior to mad-dash redefinitions of one's business priorities."

What advice is most appropriate, then, for a cable industry that indeed is preparing to react to increased competition? Rather than hum the Pied Piper tune of those who would suggest you try to "delight your customers or have them get emotional about their purchases," it may be better to follow a steady path of consciously improving customer service while remaining "wary of mindless trends." CV

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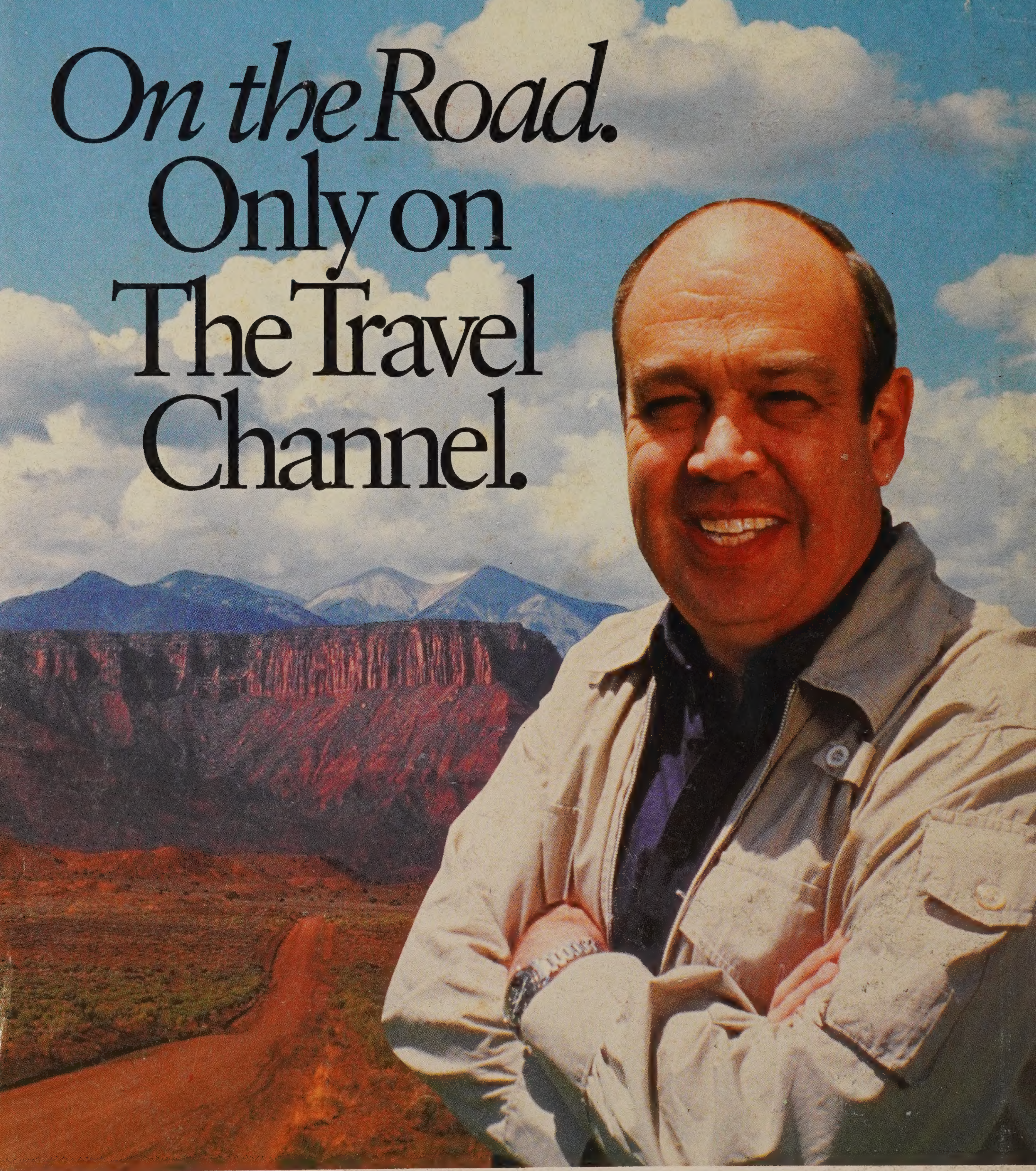

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